SPECIAL SECTION

Staffing Update: Issues, Trends, Initiatives

Pressure to replace exiting retirees...Big firm moves to recruit and retain...Closing the gender gap...Work/life balance self quiz...Flextime ROI...Trailblazers and rising stars

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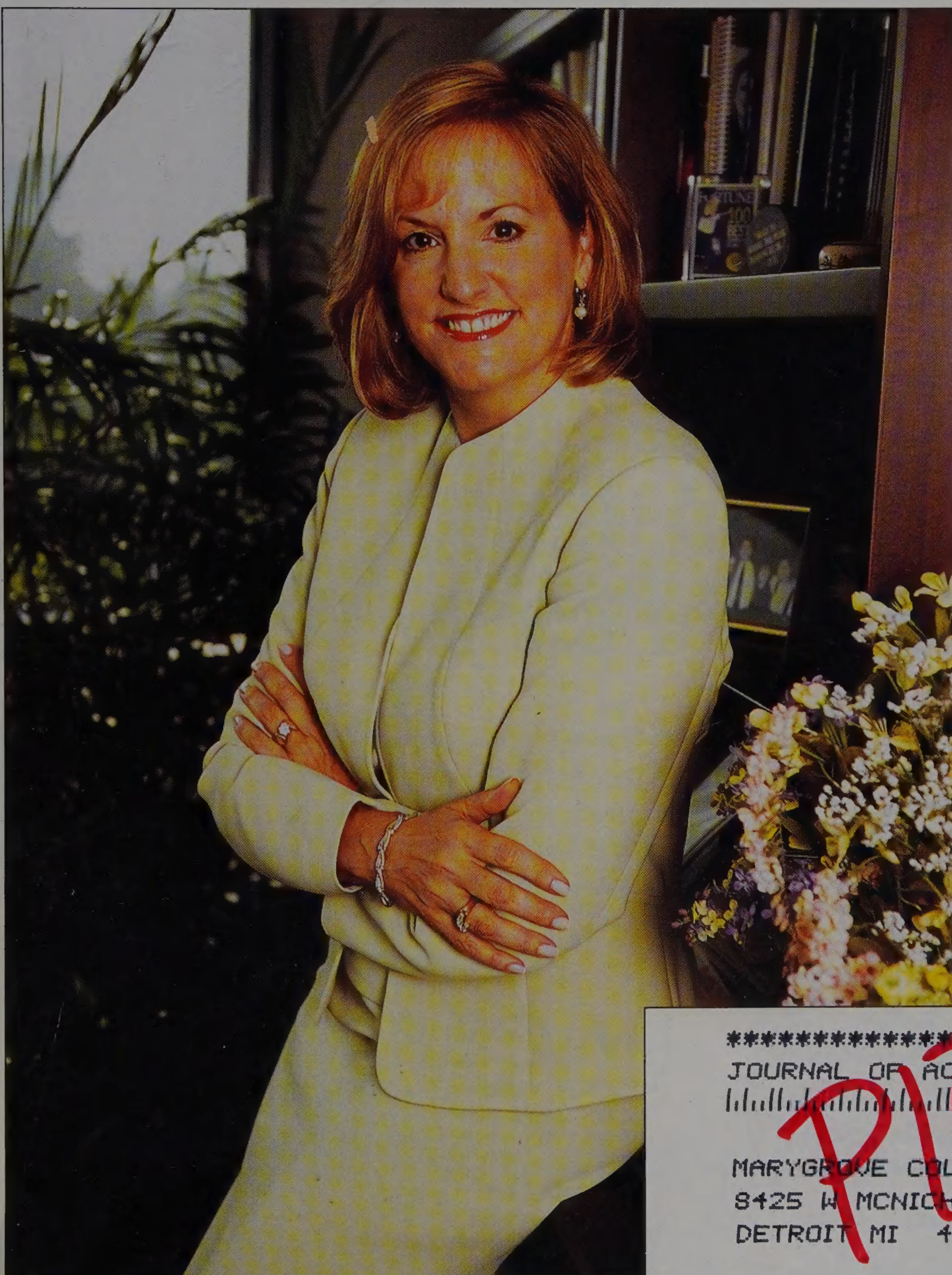
SEPTEMBER 2005

1905 100 YEARS 2005

JOURNAL OF ACCOUNTANCY

Looking Forward

A Talk With Incoming AICPA Chair Leslie Murphy **Page 34**



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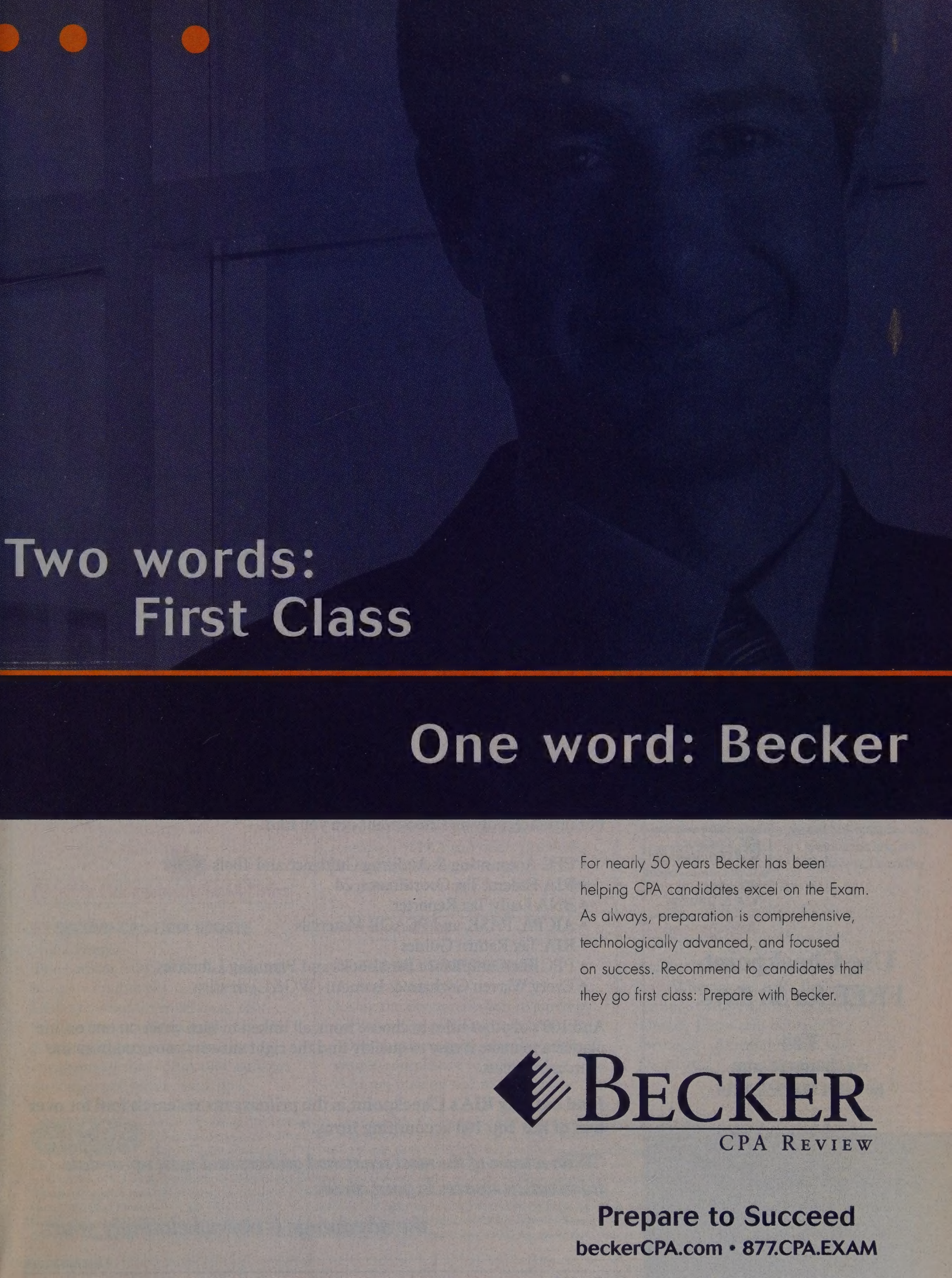

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AICPA

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Advertisers in this issue, page 139.

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Highlights

MEMBERS ASKED TO COMMENT ON BV ED

The AICPA extended the comment period on an exposure draft of proposed Statement on Standards for Valuation Services, *Valuation of a Business, Business Ownership Interest, Security, or Intangible Asset* (**www.aicpa.org/exposure/proposed_stmt_stds_val_serv.asp**). Once the standards are final, CPAs who are AICPA members will be required to comply with them when performing a valuation engagement that reaches a conclusion of value or an indication of value.

Some examples of situations in which the standards might apply include the following: valuing a block of publicly traded stock if the analysis includes consideration of a discount for blockage, lock-up, or other contractual or market restrictions; valuing stock that is not publicly traded; and computing the fair market value of assets in a charitable remainder trust.

For more information about the ED, the AICPA Business Valuation and Forensic & Litigation Services Membership Section or the Accredited in Business Valuation credential, go to **www.aicpa.org/BVFLS**. Comments should be submitted to bvstds@aicpa.org by September 30, 2005.

UNIFORMITY IN INCOME TAX ACCOUNTING SOUGHT

FASB issued an exposure draft (ED) of a proposed interpretation, *Accounting for Uncertain Tax Positions* (**www.fasb.org/draft/index.shtml**), to reduce the significant diversity that exists in the recognition and measurement in accounting for income taxes. It would apply to all tax positions accounted for in accordance with Statement no. 109, *Accounting for Income Taxes*. The interpretation would require enterprises to recognize in their financial statements the best estimate of a tax position's impact only if, on audit, that position is probable of being sustained solely on its technical merits, and it would mandate the presumption that taxing authorities will evaluate the position during an audit. Comments are due September 12, 2005.

FASAB REQUESTS INPUT ON TECHNICAL AGENDA

The Federal Accounting Standards Advisory Board (FASAB) is requesting feedback on options for adding projects to its agenda (**www.fasab.gov/pdffiles/itcon technicalagendaoptions.pdf**). Although the board has identified four topics—the federal entity, leases, conceptual framework acceleration and the appropriate source for GAAP—as subjects of possible projects, it is requesting assistance in setting priorities for them and in identifying any other projects respondents consider a higher priority. Comments are due September 9, 2005.

POLL FOCUSES ON AUDIT COMMITTEES

In a recent online poll the AICPA Virtual Grassroots Panel, an occupationally diverse group of CPAs, commented on the results of audit committees' efforts to better understand financial statements, fight fraud, recruit qualified professionals and respond effectively to other critical challenges. Nearly 270 members of the panel noticed a general enhancement in the role audit committees play in corporate governance. More than 80% said potential legal liability was the greatest obstacle to CPAs' serving on audit committees, and slightly more than three-quarters cited lack of time to participate as another impediment. Additional information on the poll's results is available from Leigh Knopf at 212-596-6132 or lknopf@aicpa.org.

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David Kupferman, CPA
San Francisco, California

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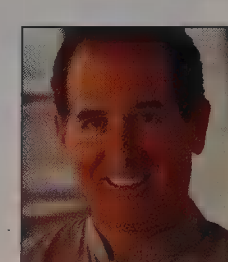

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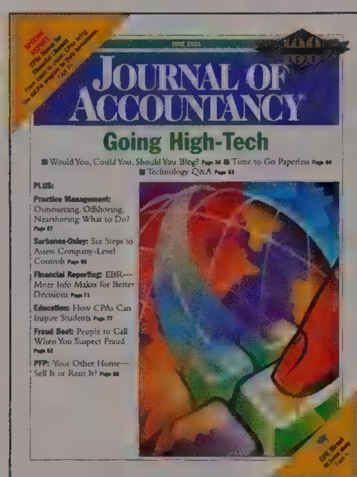
Letters

A Blogging Fan

I read the article, "Would You, Could You, Should You Blog?" (*JofA*, Jun.05, page 36)—How appropriate! I also read several blogs on technology.



I've become hooked on RSS (Really Simple Syndication) feeds, one way to obtain news and blog updates without having to actually visit the site. And I've yet to see any accounting-related blogs in my travels. I was so inspired by the article I decided to help change the trend. I hope my blog, **http://extremecpa.blogspot.com**, will be of interest to those wishing to learn more about fully utilizing technology in the accounting world.

Accountants who would like to control their own future need to embrace this new technology, which *Fortune* magazine said in January was the no. 1 trend in technology. I also recommend learning more about RSS. See **www.rssowl.org** for a free news reader.

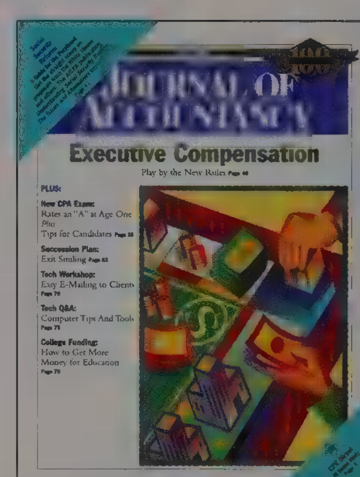
Kevin T. Ryan, CPA
Pittsburgh

The First "Last Word"

The *JofA* has every right to be pleased with its new column, The Last Word (Jul.05, page 104). I have been a reader for more than 50 years and wondered when somebody would try to humanize the publication.

You obviously fashioned a tool to help in your program to attract bright, young people into the profession. I like it. Too few high school graduates know anything about the accounting profession and the opportunities it creates. I personally wish there had been some guidance for me in 1948 when I was struggling with a decision on what to study in college.

It turns out I made the right decision, however, irrespective of how I got there. My college training led to auditing work with Peat, Marwick; then into accounting management of a publicly-held electronics company (stock options were the lure); and later to a position as VP of finance for a NYSE-listed *Fortune* 500 company. This was followed by positions as CEO of a construction company and an oil and gas exploration company. After "retirement" came law school and a law degree and license, and almost 20 years with a large regional law firm in Houston, where I serve as a partner.



Through the years I maintained my accounting certification and AICPA membership just to stay tuned in to the changing face of the profession.

There are plenty of other success stories out there. I'm sure you will be able to find some of the most intriguing ones for your new editorial page.

Fred A. Simpson, CPA, JD
Houston

CBT: Too Easy?

The article, "A Vision Fulfilled" (*JofA*, Jul.05, page 35), suspiciously failed to divulge what the actual pass rates for the computer-based Uniform CPA Examination were as compared to the paper test. I would not call the new computer-based test (CBT) a complete success until it is certain that it is comparable in difficulty to the paper test. To attribute the higher passing rate to a better candidate is naïve as no matter what the reason, the perception will be our profession is making the test easier. That perception may dilute the value of the CPA. I would have expected and preferred a lower pass rate given the drastic format change. Better to be criticized as too difficult than too easy.

Carl Mahecha,
CPA/CITP, CMA
IT Controller & Director,
Business Systems
LeSportsac Inc.
New York City

A Reader Approves

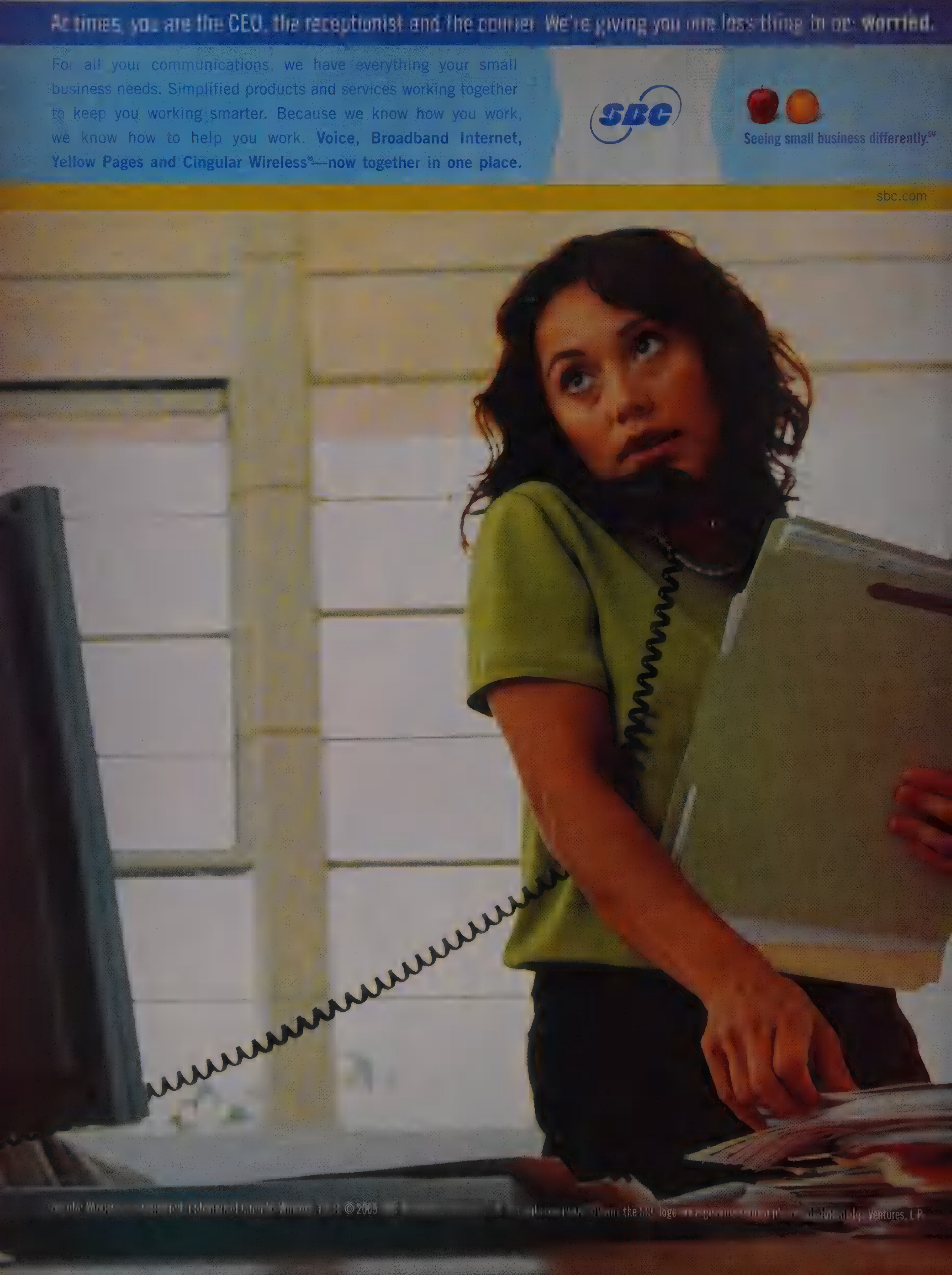
The *JofA*'s separation of each article by ads enables me to pull articles in their entirety from the magazine and provide them to my colleagues.

This is a brilliant and unique arrangement. Thanks.

Sam Rosenfarb, CPA/ABV, CFE
New York City

Letters to the Editor

The JofA *encourages readers to write letters on important professional issues in addition to comments on published articles. Because space is limited, letters submitted for publication should be no longer than 500 words. Please include telephone and fax numbers.* JofA *e-mail address: JOAED@aicpa.org.*


At times, you are the CEO, the receptionist and the courier. We're giving you one less thing to be worried.
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What contributions has the *Journal of Accountancy* made to the profession? In 1950, John L. Carey, now a member of the Accounting Hall of Fame, wrote eloquently about the many ways the *JofA* has worked to serve the profession. Carey, whose distinguished career included serving as editor and publisher of the *JofA* and executive director of the Institute, wrote the piece to remind CPAs of the *JofA*'s member-service orientation.

Since the beginning of the year, we've been running articles from previous *JofAs* in anticipation of our centennial issue, which will be published next month. This excerpt is taken from an article by Carey in *The CPA*, a predecessor of *The CPA Letter*. Much of what it has to say about the *JofA*'s accomplishments and goals remains true today.

1905 100 YEARS 2005

Looking Back

THE JOURNAL IN 1950

"Not many members of the Institute, I think, fully appreciate the contribution that has been made to the development of their profession by that familiar brown-covered magazine which they receive each month....

"Consider some of the things *The Journal* does:

"It keeps members informed of current events and opinions.

"It promotes membership in the Institute. Many accountants first learn about the organization from *The Journal*....

"It is a spokesman for the profession. Views of certified public accountants on any question can be presented through it to the public—by sending copies or reprints to editors, legislators, or others interested.

"Because it is an authoritative and workmanlike publication, it is respected by outsiders and thus adds prestige to the accounting profession.

"It has more than 15,000 subscribers who are corporate officials. [*Editor's note: Carey refers here to non-CPA subscribers.*] These men represent CPAs' clients, so *The Journal* serves as a communication medium with this important group.

"It is an information channel between the profession and students of accounting—more than 10,000 students now subscribe at special rates. It is widely used in classrooms and as supplementary reading and thus makes a major contribution to accounting education.

"It is a forum for discussion of controversial subjects and exposure of new ideas. It serves as a testing ground for technical innovations and policy decisions.

"It binds the accounting profession together, providing the one experience that nearly all accountants share. In a relatively new profession without common education or training requirements, this may be its most important function. It permits the whole profession to focus on the same things at the same time.

"It reaches accountants outside of the U.S. Foreign subscriptions now total 2,209.

"... The present slogan of the editorial staff is 'Accounting in Action.' Effort is being made to publish more material dealing with the actual uses and applications of accounting in real life as contrasted with purely theoretical or abstract articles. The purpose is to make *The Journal* useful in the daily work of its readers as well as an authoritative leader in the development of accounting thought."

TYPOGRAPHIC ILLUSTRATION BY DANIEL PELAVIN

Accounting Education Center Is Open for Business

A valuable resource for educators, students, CPA exam candidates and all others interested in high-quality CPA education.

The AICPA supports educators with resources to enhance the accounting curriculum in preparing students to become valued and trusted members of the CPA profession. To help fulfill this mission, the Academic and Career Development Team created the Accounting Education Center (**www.aicpa.org/aec**). The center contains accounting education and curriculum development resources, information to help raise students' awareness about the accounting profession, scholarship and award programs, and publications and reports provided by the AICPA.

Web site users also will find resources from the Minority Initiatives Committee, which aims to actively integrate minorities into the accounting profession to become CPAs and to enhance their upward mobility, and from the Work/Life and Women's Initiatives Committee, which promotes work/life balance and the upward mobility of women in the profession.

The center is part of the AICPA's member enhancement project, an initiative of special interest programs that allows members to join with other CPAs who share a common interest in a particular area, from audit quality and tax to business valuation, financial management and education. The Accounting Education Center is the seventh center to be launched; 11 centers in total will be created and launched over 18 months.

The Accounting Education Center is accessible through the home page of the AICPA (**www.aicpa.org**) or at **www.aicpa.org/aec**. For more information contact Joe Bittner, manager of academic and career development, at JBittner@aicpa.org or 212-596-6282. ■

WHAT IT IS

The center is a Web site that offers education and curriculum development programs, student recruiting resources, information about scholarships and award programs and publications, reports and other studies. It also provides the resources made available by the Minority Initiatives Committee and the Work/Life and Women's Initiatives Committee.

WHAT IT OFFERS

The Web site contains a home page and the following tabs:

Resources. Contains information and resources related to (1) education and curriculum development—here you will find the Educational Competency Assessment Web site that includes the core competency framework and database, student and faculty development programs such as the internship and experiential learning guidelines and college residency grant program, classroom and curriculum materials such as the professor/practitioner case development program and the model tax curriculum; (2) career awareness; (3) scholarships and awards; (4) publications, reports and studies; and (5) minority initiatives.

Community. Links to other areas of the AICPA and to strategic partners. It offers AEC members a forum to chat with each other.

Events. Contains information about accounting education conferences.

Membership. Provides information about AICPA educator and student membership.

Products. Provides information about AICPA resources available to students, educators and colleges and universities—in particular products offered at discounted rates and those that will support students' preparation for the CPA Exam.

WHO SHOULD VISIT THE CENTER

Those interested in

- Accounting education and curriculum development.
- Informing students about the accounting profession.
- AICPA minority initiatives and work/life and women's initiatives.

The center is available to the general public.


TRUE DOCUMENT MANAGEMENT FOR CPAs.
LET YOUR EVOLUTION BEGIN.

Top Line

NEWS, PEOPLE, TRENDS AND OTHER NOTEWORTHY ITEMS

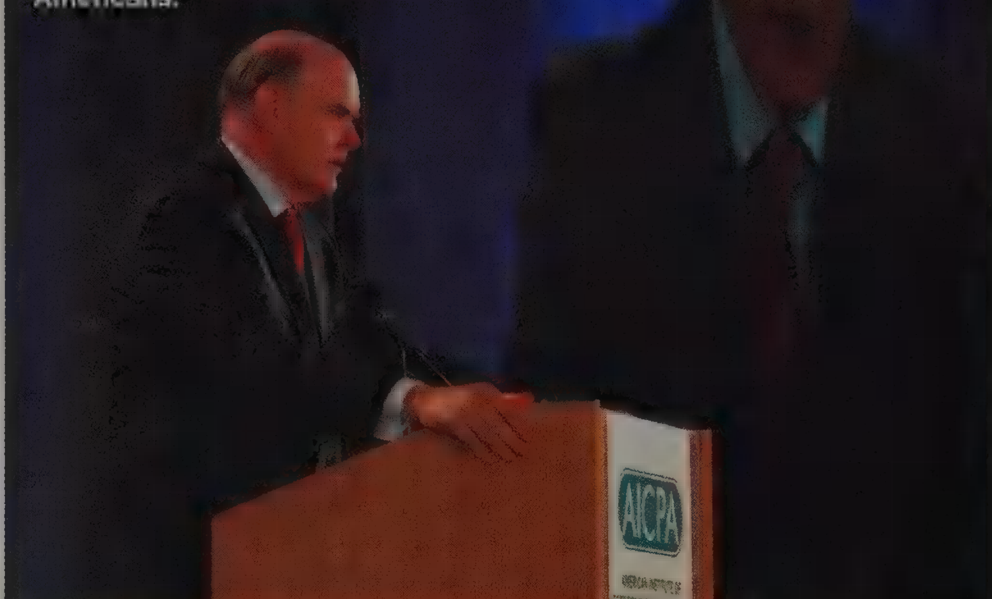
ON THE RECORD

A Thank-You to the Profession

Treasury Secretary John W. Snow, speaking on May 23 to the AICPA Council in Washington, D.C.:

"I want to commend this group for your 360 Degrees of Financial Literacy effort. Treasury's Office of Financial Education is delighted to be working with you on national financial education efforts; our partnership is awfully important to the young people who will benefit from these efforts.

"It has been said that, regardless of how much money you have, wisdom has to be acquired on the installment plan. Similarly, it is true that regardless of an individual's income, saving must be done steadily, deliberately over a lifetime. Learning about how to become, and stay, financially healthy is a lifelong pursuit as well. So I want to thank you for giving back on this issue. It's a great gift to generations of Americans."



AND ALSO...

Carl R. George, CPA, CEO of Clifton Gunderson LLP, speaking at the AICPA Retirement Planning Conference in Las Vegas on June 6:

"With the 360 Degrees of Financial Literacy program, CPAs have an opportunity to help Americans understand the need to take responsibility for their retirement planning. According to the Roper Poll the AICPA performed in April 2004, 49% of respondents had never heard of a 401(k) plan—and this is the primary savings vehicle for most Americans. CPAs can use the resources of the Financial Literacy Resource Center, **www.aicpa.org/financialliteracy**, to get out into their communities to teach people about retirement savings vehicles and planning. We can help Americans change their financial futures."

AS QUOTED

Ideals Matter

"Corruption is worth reducing because it demoralizes the human spirit and it wastes opportunity, energy, and resources."

—Roberta Ann Johnson, *The Struggle Against Corruption: A Comparative Study*, Palgrave Macmillan, 2004

I.Q. TEST

(Innocuous Question)

What's My Line?

How many of your colleagues can identify these extinct jobs?

1. Whitesmith
2. Cotter
3. Limner
4. Ostler
5. Cordwainer

—Robert Lester Porter, CPA

1. A smith works in metal; a whitesmith in tin and iron, there also are blacksmiths, tinsmiths, coppersmiths, gunsmiths.
2. A farm laborer who lives in a cottage.
3. One who illuminates manuscripts or draws or paints in publications.
4. An innkeeper, also "hostler."
5. Originally a worker in cordovan leather, but came to mean a shoemaker.

PHOTOGRAPH BY IMIJINATION PHOTOGRAPHY

NUMEROLOGY

Five Common Investor Errors

- Chasing returns on exotic foreign investments while ignoring growth opportunities in U.S. markets. Many portfolios today are dangerously overloaded with international investments.
- Rushing to invest in real estate. If there is a real estate bubble, investors who are over-concentrated and poorly diversified will suffer the most.
- Treating hot investment alternatives such as hedge funds or private equity accounts as though they were legitimate asset classes. They aren't.
- Taking a short-term view of tax avoidance by buying products that ultimately don't end up reducing their tax bill.
- Ignoring the true costs of owning an investment. In a flat market investors will have a hard time recouping fees and expenses to make a profit.

Source: Zero Alpha Group, **www.zeroalphagroup.com**, 2005.

NEWS WIRE

Intangible Asset Article Rates Tops

AICPA President and CEO Barry C. Melancon presented the *Journal of Accountancy*'s 2004 Lawler Award for best article of the year to Jennifer M. Mueller, PhD, for "Amortization of Certain Intangible Assets" (Dec.04, page 74, **www.aicpa.org/pubs/jofa/dec2004/mueller.htm**). In her article Mueller, a KPMG Faculty Fellow at Auburn University in Auburn, Ala., explained how to evaluate assets with contractual or legal lives. Each year, the *JofA*'s editorial advisers choose a winning article, which earns its author $500 and a commemorative plaque. The award is named after John L. Lawler, a former *Journal* editor and AICPA senior vice-president.

SIGNS OF THE TIMES

Fear Factor

Those of us who perform litigation services for a living have a high anxiety level during a deposition: The fear of the unknown question—and hoping we'll be able to answer it—keeps us sharp.

I knew going in that one deposition was going to be tedious. We were in a bet-the-company patent infringement suit with significant dollars at risk, and I was ready for anything—or so I thought. Right after I was sworn in, the opposing counsel pitched it. "Would you please state for the record your Social Security number, Mr. Newman." Questions spun through my mind. How was that relevant? Would it go to my credibility? Affect my analysis? And given the proliferation of identity theft, the last thing I wanted was my Social Security number on a court record.

The question came again. I said I wasn't comfortable putting that information on the record, but the attorney again directed me to "answer the question."

Finally, I was told that if I didn't answer the question, someone would call the judge. I caved, but asked that the deposition be marked confidential. Only counsel could request such a thing, they said. "OK, it's 204-xx-yyyy." I felt horrible...defeated...and couldn't wait to finish the depo.

When we took our first break about an hour into the proceeding, my inquisitor cut right to the chase. "You were uncomfortable, weren't you?" I admitted I'd never been asked that question before. My curiosity got the best of me. I asked him why such a question. His response was simple: "I asked only because your attorney asked my expert for his Social Security number yesterday."

That explained it!

Glenn Newman, CPA
Principal in Charge
Parente Randolph LLC
Philadelphia

PHOTOGRAPH BY STEVE GATES/BLACK STAR; ILLUSTRATION BY ROBERT SAUNDERS/LAUGHING STOCK

BUSINESS TRENDS

Seven Rules for Bargaining

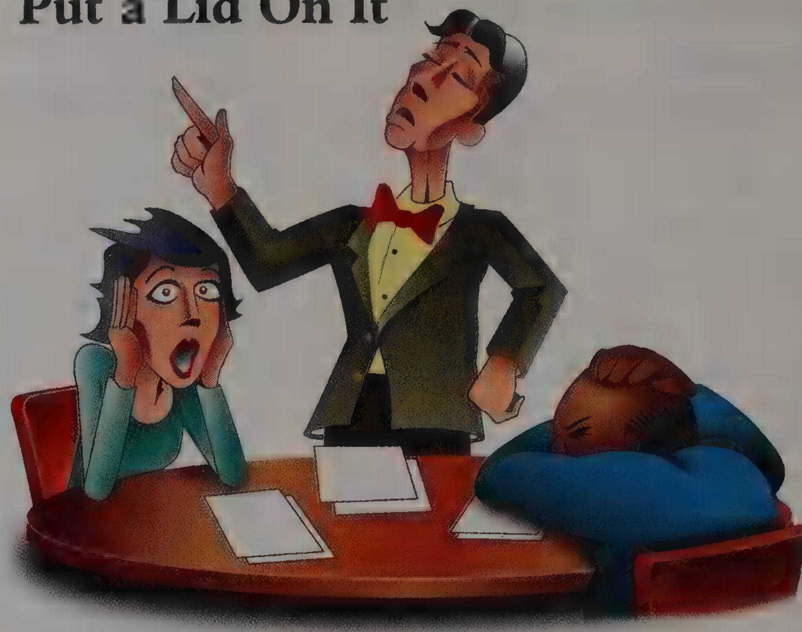
Whether you're talking to a client or a colleague, a supplier or even a spouse, the essence of most conversations comes down to negotiating the gulf between what's in it for you and what's in it for them. Here are some tips for making the most of every situation.

- Don't look at a deal as an either/or proposition. Consider creative ways to compromise so both parties win.
- Know what you can part with—and then part with it. Separate what you absolutely must have from what you can live without.
- Figure out the other side's timetable. If they're in a hurry, you'll have an advantage.
- Show that you understand the other position. Act like an ally, not an enemy.
- Stifle your emotions. Focus on the goal.
- Don't believe everything, but never call anyone a liar.
- Devise a backup plan you can live with. Let the other side know you have options.

Source: *Money* magazine, **www.money.cnn.com**, May 2005.

GOLDEN BUSINESS IDEA

Put a Lid On It



The expression, *When you've got it, flaunt it,* is a surefire career killer.

Just because you know something doesn't mean you have to insist on telling everyone. Nothing pushes people's—especially bosses'—hot buttons more than someone who repeatedly pontificates. That's not to say you shouldn't present well-supported and deeply felt opinions. Just not all the time.

—Stanley Zarowin

HOME FRONT

Retire to Shangri-La

There's more to retirement planning than simply saving enough money. Deciding where to live is important, too. In addition to popular destinations such as Florida or Arizona, retirees are heading to Las Vegas, North Carolina and even Mexico and the Caribbean. Here are some factors to consider in picking the perfect retirement spot:

- **Cost of living.** It's more expensive to retire to New York City than to Texas. Make sure your retirement income will stretch far enough.
- **Availability of adequate health care.** Make certain hospitals and other medical facilities are nearby—especially if you have an existing condition that requires special care.
- **What it's like to live there.** Consider renting for three to six months before buying a home to make sure it's where you really want to live.
- **Climate.** Phoenix can be plenty hot in July; make sure you can handle it.
- **Income, estate and sales tax rates.** Some states, including Florida, Texas and Washington, have no income tax, making them potentially attractive retirement destinations.
- **Diversity of housing stock.** The day may come when you have to move to a retirement community, perhaps one with nursing or intermediate care facilities.
- **Availability of part-time employment.** Many retirees need to work part-time to make ends meet.
- **Proximity to major airport.** If you want to see them frequently, make it easy for children and grandchildren to visit.
- **Access to cultural and arts facilities.** Cabo San Lucas is a beautiful place but it's a long drive to attend the symphony.
- **Foreign language and visa requirements.** If you plan to live abroad, study the language and the legal requirements.

ILLUSTRATIONS: FROM LEFT, BARBARA MASLEN/IMAGES.COM; NED SHAW

NEWS WIRE

A Million Thanks

CPA Harvey Bookstein and his wife Harriet get a thank-you plaque from Cal State Northridge president Dr. Jolene Koester for their million-dollar donation to the school's accounting program.

It's not every day that a CPA donates $1 million to his alma mater—especially when that's Cal State Northridge. But it's precisely the school's less-than-Ivy-League cachet that made Harvey Bookstein feel his gift would be truly appreciated. The cofounder of Los Angeles accounting firm RBZ LLP says the money will help pay for top-quality professors and fund scholarships for accounting students.

The only child of two tax preparers who arrived in California with "$100 and an old car," Bookstein began helping out in the family firm at the age of seven. "I was the class nerd and hated high school," he says, "but my parents insisted I get the college degree and CPA certification they always regretted not having. I'm very grateful to Northridge for my opportunity and my career."

Today Bookstein is a "therapeutic accountant" who specializes in financial issues involving children, divorce and passing down family businesses from one generation to the next. "I try to get sons to respect their fathers' years of knowledge and fathers to respect sons' technology know-how," he says. "Together they're much more successful than they would be apart."

About his seven-figure gift—the largest in Northridge history—Bookstein says, "I'm not wealthy, but I've certainly made more money than I ever thought I would and I want to enjoy the fruits of my efforts while I'm still alive."

—*Cheryl Rosen*

SURVEY SAVVY

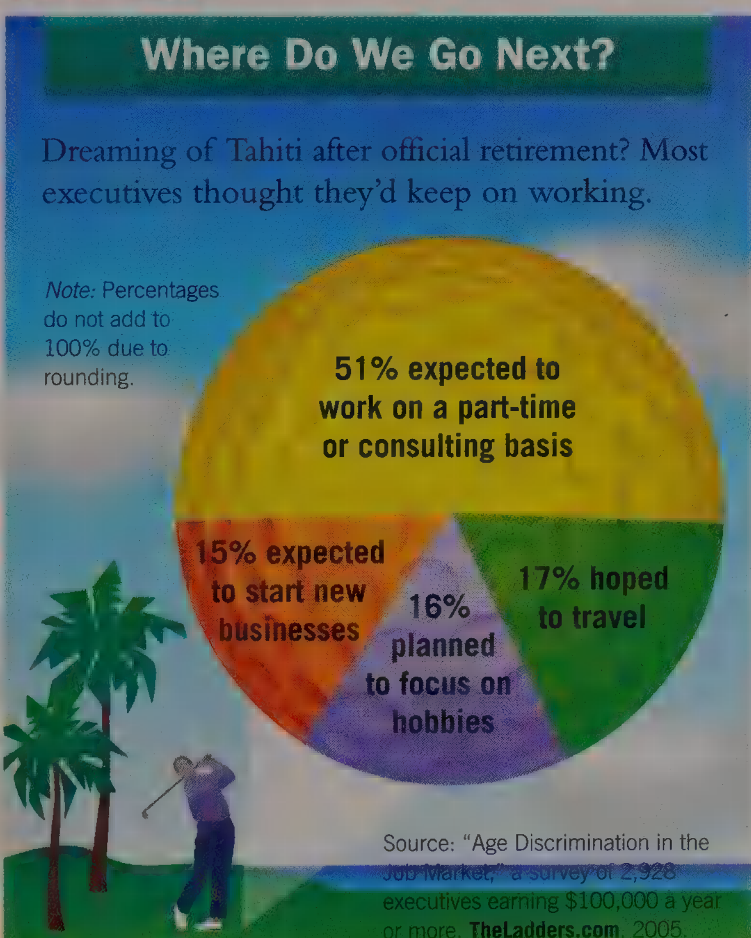


CHART BY KAREN MINOT ILLUSTRATION; ILLUSTRATION BY NED SHAW

GOLDEN BUSINESS IDEA

Contract Musts

When negotiating a contract ask for every free or inexpensive option you can get. The other party usually is willing to give them away because they appear to be irrelevant to the deal—but sometimes they become very valuable later on.

When leasing a property, ask for an option to sublease even if you have no plans to do that. When committing to a long-term purchase contract, get an option to resell the goods you buy even if you intend to use them yourself. If circumstances unexpectedly change, you may need to sublease or sell the goods.

—*Stanley Zarowin*

You're Invited

Have you always wanted to see your name in print? Do you have an amusing story to share?

We're looking for funny anecdotes about the CPA work day to include in our new Top Line section. Send entries to joaed@aicpa.org.

NEWS DIGEST

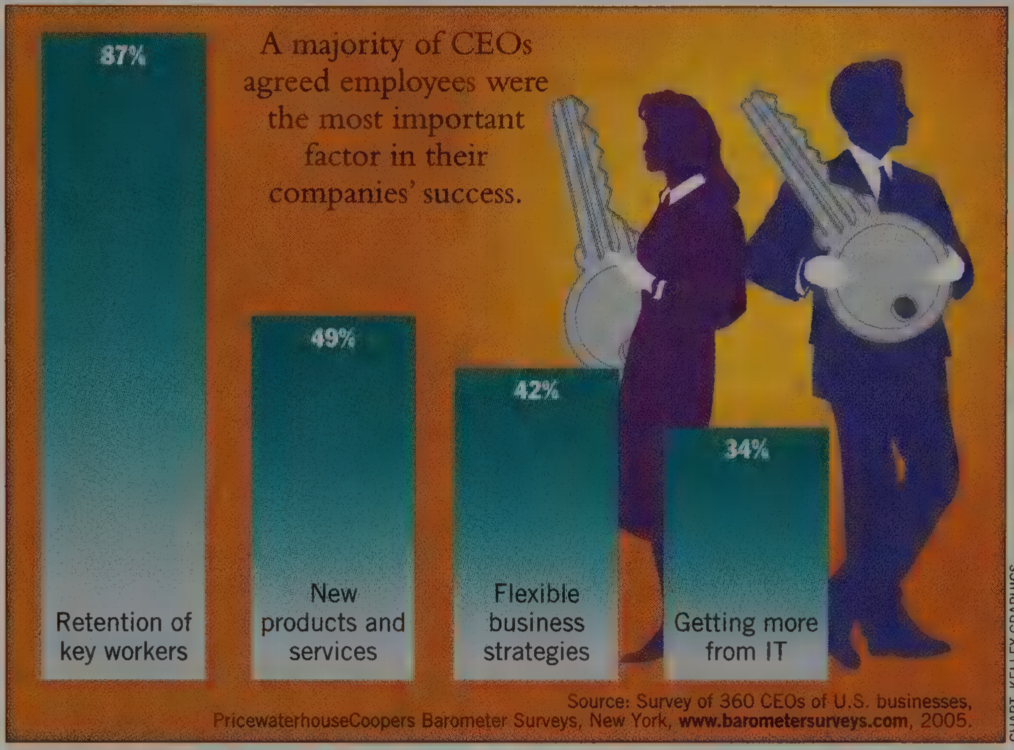
ACCOUNTING

■ The International Accounting Standards Board (IASB) and the Financial Accounting Standards Board (FASB) each published an exposure draft (ED) containing joint proposals to improve and align the accounting for business combinations (**www.iasb.org/current/ed.asp; www.fasb.org/draft**). The proposals retain the current requirement in both International Financial Reporting Standard 3 and FASB Statement no. 141 to account for all business combinations by means of a single method, in which one party always is identified as acquiring the other. Among the principal changes would be a requirement to measure the acquired business at fair value and recognize the goodwill attributable to any noncontrolling interests, not just to the acquirer.

The IASB and FASB also published EDs proposing that noncontrolling interests be classified as equity within the consolidated financial statements and that acquisitions of noncontrolling interests be accounted for as equity transactions (**www.fasb.org/draft/ed_business_combinations_replacement_of_fas141.pdf**; **www.fasb.org/draft/ed_noncontrolling_interests.pdf**). Comments on all the EDs are due October 28.

■ The SEC released a staff report on off-balance-sheet arrangements, special purpose entities and transparency of filings by issuers reflected in a sample of filings by 200 public companies (**www.sec.gov/news/studies/soxoffbalancerpt.pdf**). In the report, which the Sarbanes-Oxley Act requires the SEC to deliver to the president and Congress, commission staff recommended among other things that FASB reconsider and refine its accounting guidance for defined-benefit pension and other post-retirement benefit plans and for leases. The report also discouraged companies' use of transactions motivated primarily by accounting and reporting—rather than economic—considerations.

Success Factors



■ FASB issued Staff Position (FSP) no. 150-5, *Issuer's Accounting under FASB Statement No. 150 for Freestanding Warrants and Other Similar Instruments on Shares That Are Redeemable* (**www.fasb.org/fasb_staff_positions/fsp_fas150-5.pdf**). The guidance is effective for reporting periods beginning after June 30, 2005.

EMPLOYEE BENEFITS

■ The Institute endorsed the SIMPLE Cafeteria Plan Act of 2005 (S. 723), a bill that would allow small businesses to provide nontaxable benefits, such as flexible spending accounts, to their employees (**http://thomas.loc.gov**) as large companies and government agencies now do. In addition, the proposed legislation would allow cafeteria plans, which permit employees to customize their benefits, to offer long-term-care insurance, and it would simplify and expand dependent care accounts. Introduced by Sen. Olympia J. Snowe (R-Maine), the bipartisan bill was co-sponsored by Sens. Jeff Bingaman (D-N.M.) and Christopher S. Bond (R-Mo.).

GOVERNMENT ACCOUNTING

■ The Federal Accounting Standards Advisory Board (FASAB) published

■ For single-click access to further coverage of the news stories listed here, visit the *Journal of Accountancy* Web site at **www.aicpa.org/pubs/jofa/joahome.htm**.

■ For news from the AICPA and state societies, visit **www.cpa2biz.com**, which also offers online CPE, AICPA professional literature, practice management aids and links to state society Web sites.

Statement of Federal Financial Accounting Standards (SFFAS) no. 29, *Heritage Assets and Stewardship Land* (**www.fasab.gov/pdffiles/sffas_29.pdf**). The standard reclassifies information on these assets and land as basic information, with the exception of condition information, which it classifies as required supplementary information. Most of the guidance is effective for reporting periods beginning after September 30, 2005, but certain disclosure requirements will be phased in over the next three years.

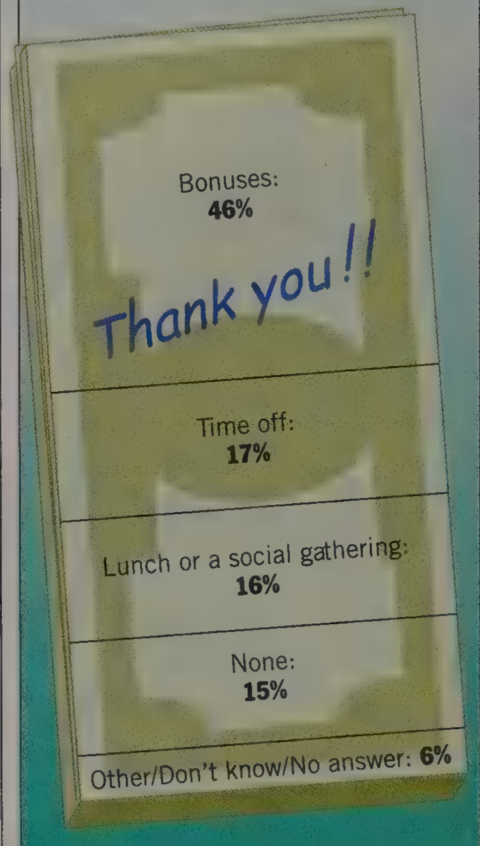
■ The Governmental Accounting Standards Board (GASB) issued Statement no. 47, *Accounting for Termination Benefits* (**www.gasb.org/st/summary/gstsm46.html**). It provides accounting and reporting guidance for state and local governments offering benefits such as early retirement incentives or severance to involuntarily terminated employees. In general the statement is effective for financial statements for periods beginning after June 15, 2005, but for termination benefits affecting defined-benefit postemployment benefits other than pensions, governments should implement Statement no. 47 simultaneously with Statement no. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions* (**www.gasb.org/st/summary/gstsm45.html**). Both statements are available from GASB at **http://store.yahoo.com/gasbpubs** or by calling 800-748-0659.

INTERNATIONAL

■ The International Accounting Standards Board issued an amendment to the fair value option in International Accounting Standard (IAS) 39, *Financial Instruments: Recognition and Measurement*. In response to regulators' concerns that the option provision in the 2003 revisions of IAS 39 might be misused, the IASB limited its application to financial instruments that meet certain conditions. The amendment takes effect January 1, 2006, with earlier application encouraged.

The IASB also amended International Financial Reporting Standard (IFRS) 1, *First-time Adoption of International Financial Reporting Standards*, and the Basis for Conclusions on IFRS 6, *Exploration for and Evaluation of Mineral Resources*. The amendments clarify the board's intentions regarding an exemption for companies first adopting IFRSs before January 1, 2006. Information on both amendments is available at **www.iasb.org/news**.

Say Thanks With Cash



Source: Survey of 1,400 CFOs at U.S. companies of 20 or more employees, Accountemps, Menlo Park, Calif., **www.accountemps.com**, 2005.

CHART: KELLEY GRAPHICS

■ The International Federation of Accountants (IFAC) released a revised *Code of Ethics for Professional Accountants*, which establishes a conceptual framework promoting the fundamental principles of integrity, objectivity, professional competence and due care, confidentiality, and professional behavior (**www.ifac.org/news**). It requires all accountants to identify threats to these principles and, where threats are identified, to apply safeguards to prevent the principles from being compromised. The revision is effective June 30, 2006, but may be implemented before then.

IFAC also issued an ED, *Proposed Revised Section 290, Independence—Assurance Engagements* (**www.ifac.org/eds**), proposing changes in the definition of the term *network firm*. The proposed revisions would classify one firm as a network firm of another if the two share a brand name or significant professional resources, revenues, profits, costs or expenses. Network firms are required to be independent of an audit client of a firm within the network. Comments are due September 30.

■ The International Auditing and Assurance Standards Board (IAASB) of IFAC released an international standard on review engagements (ISRE; **www.ifac.org/guidance**) and two EDs of proposed international standards on auditing (ISA; **www.ifac.org/eds**). ISRE 2410, *Review of Interim Financial Information Performed by the Independent Auditor of the Entity*, outlines the general principles of such a review, provides guidance on the inquiries, analytical and other review procedures the auditor performs and prescribes the review report's content. The standard, which can be downloaded free at **www.ifac.org/store**, is effective for periods beginning on or after December 15, 2006, with earlier adoption permitted.

Comments on the two EDs—ISA 701, *The Independent Auditor's Report on Other Historical Financial Information*, and ISA 800, *The Independent Auditor's Report on Summary Audited Financial Statements*—are due October 31, 2005.

MANAGEMENT

■ The Institute released *AICPA Audit Committee Toolkit: Not-for-Profit Organizations* and *AICPA Audit Committee Toolkit: Government Organizations*, which are comprehensive sets of best practices for, among other things, understanding internal controls, conducting meetings with company executives and making the audit committee charter a tool for managing committee responsibilities and documenting performance. These resources comple-

ment a similar one the Institute has developed for public companies. All the toolkits can be downloaded free at the AICPA Audit Committee Effectiveness Center (**www.aicpa.org/audcommctr**) and customized as needed; next month they also will be available in print at **www.cpa2biz.com** or by phone at 888-777-7077.

MONEY LAUNDERING

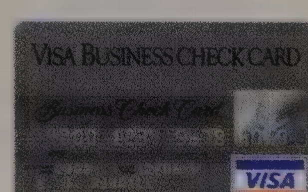
■ The Federal Financial Institutions Examinations Council (FFIEC) released the *Bank Secrecy Act (BSA)/Anti-Money Laundering Examination Manual* to ensure consistent application of the act to commercial banks, savings associations and credit unions (**www.fdic.gov/news**). In it the FFIEC prescribes uniform principles, standards and report forms for federal banking regulators. The manual, which does not set new standards, is a compilation of existing regulatory requirements, supervisory expectations and sound practices. For example, its guidelines will better enable examiners to evaluate banks' compliance with federal requirements, regardless of organizational size or line of business. In collaboration with the Financial Crimes Enforcement Network, which administers the BSA, the banking regulators—the Board of Governors of the Federal Reserve System, the Federal Deposit Insurance Corp., the National Credit Union Administration, the Office of the Comptroller of the Currency and the Office of Thrift Supervision—will begin employing the manual's procedures in the third quarter of 2005.

FYI

■ President George W. Bush designated Cynthia A. Glassman as acting SEC chairman until the Senate confirms a successor to William H. Donaldson, who stepped down in June. The president has nominated Rep. Christopher Cox (R-Calif.) to replace Donaldson.

■ The Financial Accounting Foundation named Keith L. Johnson, CPA, chairman of the Governmental Accounting Standards Advisory Council for a two-year term. The council consults with GASB on technical issues, project priorities and other matters.

■ Michael G. Gaynor and Joseph D. McGrath began two-year terms as professional accounting fellows in the SEC's Office of the Chief Accountant. Both were senior managers in public practice—Gaynor in KPMG's New York office and McGrath in Ernst & Young's Cleveland office. They will develop rule proposals under federal securities laws, communicate with professional accounting and auditing standard-setting bodies and consult with SEC-registered companies on accounting and reporting matters. ■



VISA BUSINESS CHECK CARD
VISA

SMART STOPS ON THE WEB

IT SITES

Stop Threats Near and Far
www.isalliance.org

Are your company's computers suffering from Web insecurity? Give your PCs peace of mind with a visit to the Internet Security Alliance e-stop. Free registration gets you three best practices guides on cybersecurity for individuals, senior managers and small businesses. The News section offers the "Insider Threat Study: Computer System Sabotage in Critical Infrastructure Sectors."

Get in the Know
www.software-engine.org

CPAs and IT managers looking for software can click on this Web site for free downloads, program reviews and vendors. A search for accounting software returns links to sites that offer demos, explanations and pricing information. Or you can search categories such as antivirus, banking, content management, telecom and Web design software.

Risky Business
www.disasterrecoveryworld.com

CPAs and IT professionals will find business continuity and disaster recovery planning tips in a slide-show presentation at this Web stop. Other resources include articles, papers and real-life disaster recovery stories, guidelines for testing a plan and a suggested statement of support from the executive level of your organization.

For the Record
www.itic.org

The Information Technology Industry Council keeps track of regulatory policy documents such as guidelines for grounding IT equipment and lists international IT standards through a link to the International Committee for Information Technology Standards's e-stop. Categories of interest for CPAs include electronic commerce, export controls, intellectual property, taxation and telecommunications.

GENERAL INTEREST SITES

CPA, Sell Thyself
www.aicpa.org/cpamarketing

Looking to get the word out about your professional services? CPAs can check out the Marketing Tool Kit section of the AICPA's Web site to find advertisements and brochures for business consulting, personal financial planning and tax, or to get downloadable versions of the CPA logo. Other links give information on becoming a media resource, effective advertising and marketing strategies, and sample press releases for announcing new firm partners, results of client satisfaction surveys or office relocations.

New Blog on the Block
www.taxfoundation.org

In addition to offering visitors free tax information—such as a comparison of state and local tax burdens and the latest on Social Security reform—this Web site posts free papers, special reports and the quarterly e-publication *Tax Watch*. It also has added a new section, Tax Policy Blog, where entries include "A New Day for State Corporate Income Taxes?" and "Hard Choices for Tax Reform Panel."

An Insightful Site
www.smarteconomist.com

CPAs interested in corporate finance and governance, economic policies, financial markets and new technologies can register free at this Web stop to tap into its full list of reports and research papers. Titles include "Historical Cost vs. Mark-to-Market Accounting," "Is Patent Protection Affected By Its Financing?" and "Portfolio Management In an Integrated World Economy."

Webby Woman
www.worldwit.org

Visitors looking for insights on how business and technology affect working females can find them here. WorldWit members can post their ideas, find tips and strategies on job searching, and get advice on managing retirement portfolios or retaining top talent. Some discussions focus on the business of being a mom and the secrets of serenity. The Blogs at WorldWit section offers opinions from members on networking for success, the male perspective and the nature of business.

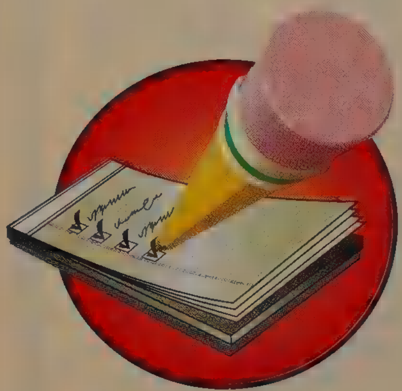
Climb to the Top
www.theladders.com

Looking for a new hire? Go to this executive-level job site, first mentioned as a May 2005 Smart Stop (page 23), to find earnest applicants. CPA job seekers can become premium members and take advantage of a resume critique service and access the newly revamped link to **http://mktg.theladders.com**, which offers searches of advanced position posts and direct links to employers' Web classifieds. All registered users can receive online guidance, such as "Personal Branding From 'Bewitched' to 'The Apprentice,'" and current and archived newsletters.

Get a *Financial* Life
http://finance.yahoo.com

CPAs can use this free section of Yahoo.com to check stock quotes, read news about public companies and review the performance of mutual funds. You also can sign up for a free trial of streaming stock market data, featuring real-time quotes and information about stock exchange fluctuations. The trial also allows users to access live tick-by-tick charts and compare stocks and indices.

Dos and Don'ts at the Podium



At some point in your career you'll likely be asked to do public speaking. The way you present yourself gives a first impression of how competent you are. Here are some tips to keep in mind before, during and after your presentation.

Prior to the speech...

❑ ***Consider the purpose and speak to it.*** Is it a formal atmosphere or an informal, interactive one? Are you trying to educate your audience or move it to action? Keep the appropriate tone throughout.

❑ ***Speak only about what you know well.*** Begin with a strong introduction and keep the presentation simple, understandable and memorable. Let your passion for your business or product come through; no matter what you're talking about, people want to see your enthusiasm.

❑ ***Give yourself a time limit.*** Practice making your message fit the time available.

During the speech...

❑ ***Balance the format of your information.*** Cover the basics and put the details in a handout.

❑ ***Use anecdotes and stories to show rather than tell.***

❑ ***Be mindful of your language.*** Don't use words above or below your listeners' level of comprehension. And vary the pace of your speech to keep it interesting.

❑ ***Be aware of your body language.*** Don't move your hands too much, and when you do use gestures, make sure they match your words. Move around if possible, but keep your movements fluid and steady.

❑ ***Read your audience.*** If they're not looking at you, they're probably bored. Throw in some changes in tone or tell a story to gain back their attention.

❑ ***Close with a bang.*** Your conclusion should bring your audience to where you want it to be. End powerfully. Call for some action.

❑ ***Never go over the time allotted.*** It's the quickest way to make everyone forget the great things you've said.

After the speech...

❑ ***Take questions.*** You can ask for written ones to keep control.

❑ ***Feel out the crowd.*** Talk to as many people as possible; you never know who might be a future client. Get their contact information and hand out plenty of business cards.

❑ ***Call, write or e-mail audience members after your presentation.*** You might get a sale or a letter of recommendation out of it.

Source: Adapted from "Be a Better Speaker" and "Speaker's Checklist," Chris Widener, **www.madeforsuccess.com**, 2002.

Leslie Murphy, managing partner of client service for Plante & Moran, will become the AICPA chair at the Institute's October annual meeting. The *JofA* will publish her acceptance speech in a future issue.

Looking Forward: A Talk With Leslie Murphy

BY NANCY R. BALDIGA

PHOTOGRAPHS BY SANTA FABIO/BLACK STAR

Leslie Murphy has had a distinguished career. As a member of the senior leadership team at Plante & Moran, she has been a manager in the areas of assurance, tax, management consulting, technology consulting and corporate restructuring. She also cofounded the firm's PTA Committee, which is responsible for work/life initiatives. During her years of service with the AICPA, she has served on the board of directors and as chairman of the finance committee. In addition she has worked extensively with the Michigan Association of CPAs, United Way, the Michigan Women's Foundation, Michigan's Children and Junior Achievement. In anticipation of taking on her latest leadership role, she shared her thoughts with the *JofA*.

THE PROFESSION TODAY

JofA: *The past few years have been a period of self-reflection for the accounting profession as it addressed the criticisms and concerns of the general public, regulators and primary users of financial information. What has the profession accomplished and what are the key things that still need to be done?*

Murphy: The profession's response in the face of some very difficult times has been exceptional. We have improved the independence rules, finalized certain auditing and accounting changes and initiated others in ethics, enforcement and peer review standards affecting private companies. We have addressed audit quality and supported it by launching the Employee Benefits Audit Quality Center, the Government Audit Quality Center and the Center for Public Company Audit Firms. We have further developed strong working relationships with regulators, including the PCAOB, as well as with legislators and government agencies. Today, we are working in a far more coordinated manner than ever before with a wide range of groups affecting our profession. We created a state-of-the-art CPA examination that screens candidates much more effectively for the skills and knowledge necessary to be successful in our ever more complex world. In line with our long-term commitment to serving the public, we launched an unprecedented CPA-driven nationwide financial literacy initiative that is truly sweeping the country.

THE CHAIR'S ROLE

JofA: *What are the primary goals for you and your leadership team in the coming year? What do you see as your biggest challenge and your greatest opportunity?*

Murphy: I am fortunate to have served on the AICPA board for the past three years when our current initiatives were debated and formalized. I plan to sustain the positive momentum we have achieved through innovation and a willingness to change and step up to challenges and complex issues. We have a great profession, and I am determined to do my part to ensure the AICPA continues to serve and support our diverse membership. At the same time, we must continually strive to help CPAs serve the public and live up to our high professional standards. We also need to celebrate the opportunities that our profession provides so that it becomes even more attractive and enjoyable as a career. Our biggest challenge will be to set priorities for initiatives and projects based on limited resources.

JofA: *What objectives have you identified?*

Murphy: We have a very aggressive agenda already in progress. We are developing significantly enhanced resources for all of our very diverse members, including those in business and industry, to assist them with the ever more challenging demands of the profession. We also expect to continue exploring private company accounting principles, evaluating potential changes from public company GAAP and also continue our very successful outreach to educate the public on financial literacy topics as more Americans struggle with managing their financial commitments in this rapidly changing world. Finally, we need to address the increasing shortage of qualified staff in our profession. Regulatory demands and recent business failures have created unprecedented demand for staff with financial skills, particularly in the area of internal controls. Shifting demographics will further strain our already scarce resources and require much more flexibility and creativity to effectively compete for qualified talent.

BUSINESS AND INDUSTRY MEMBERS

JofA: *A significant number of Institute members are accounting professionals working in business and industry. What role can they play in improving the reputation and effectiveness of the profession?*

Murphy: CPAs working in business and industry often serve as the conscience of their organizations, steering companies to higher levels of business ethics. Accountability and integrity, two hallmarks of our profession, are much-needed attributes that CPAs bring to the corporate world. As controllers, CFOs, strategic advisers and business leaders, they can help bring quality and rationality to American business. From internal controls to enhanced audit committees, they are actively engaged in virtually every area of corporate America. They are likewise active in the Institute and have made significant contributions to the initiatives underway. We will look for broader and more effective ways to serve these members and expand the value proposition that comes with membership and volunteerism.

WOMEN IN THE PROFESSION

JofA: *Many people in the profession have been following the controversy over Harvard University President Lawrence Summers' comments about women in science. What lessons and insights can CPAs provide on this issue?*

Murphy: Much has changed in our profession over the past

Leslie Murphy, managing partner of client service for Plante & Moran, says a major challenge as chair of the AICPA board will be to set an agenda that addresses all members' needs.

several decades. Most significant is the abandonment of the assumption that women are not willing to make the commitment necessary to be successful. Women now represent more than half of the graduates in accounting and increasingly are moving into the partner position and assuming leadership roles within firms. The professional service environment provides significant opportunity for flexibility, which is fundamental for striking an appropriate balance between personal and work commitments. Also, at its core, accounting is a service profession and the way women are socialized in our society prepares us well for service to our clients and our employers. Other professions should follow the lead of public accounting and look to capitalize on attributes that may contribute to the success of women, rather than hypothesizing about what may be holding them back.

ACHIEVEMENT

JofA: *What do you consider to be your most important professional and personal accomplishments?*

Murphy: My most important professional accomplishments relate to the contributions I believe I have made to Plante & Moran as a member of the senior management team, including the role I have played in the advancement of women and the continued development of our unique culture. The role I will assume as chairman of the AICPA board is an incredible honor and a capstone to my career. My greatest personal achievement, without question, is the loving relationships I have built and sustained with my husband, children and grandchildren, given my extremely demanding professional life.

JofA: *What's the one question you think you'll be asked most often in the coming year, and how will you answer it?*

Murphy: It will be, "Why did I choose to take on this challenge and serve the profession in this manner?" My response will be that I believe the rewards far exceed the effort and I am most fortunate that my firm has supported this significant contribution to the profession. I encourage each of our members to get involved and take advantage of all we can learn from one another, while we collectively contribute to the advancement of the profession. As an added benefit, volunteering provides the opportunity to work with extraordinary individuals who are likely to become lasting friends and professional colleagues. ■

NANCY R. BALDIGA, CPA, is an associate professor and chair of the department of economics at the College of the Holy Cross, Worcester, Mass., and a former member of the AICPA Work/Life and Women's Initiatives Executive Committee.


BNA Fixed Assets™
www.bnasoftware.com/FAguide
Tracking your fixed assets is easy when someone can show you the way.
BNA Fixed Assets takes you where no other company can by turning your data into information you can use. So you can see what lies ahead, make better business decisions, and reach higher financial ground. Let us be your guide. BNA Software. You're in good company.
Try BNA Fixed Assets FREE!
Call 1.800.424.2938 and select option 3
or visit www.bnasoftware.com/FAguide
and use Priority Code: BAND559OA
BNA Software


OBJECTS IN
PORTFOLIO
MAY BE LARGER
THAN THEY
APPEAR.

A life settlement can be a better alternative than surrendering a policy.

Turn Unneeded Policies Into Cash

BY JAMES D. WARRING

Life insurance planning isn't always about making sure someone has enough coverage. It's also about finding solutions for people who have too much. For them, it's a question of whether it's better to continue paying premiums in hopes of a gain at maturity or recoup some of that investment immediately by surrendering the policy. High premiums often put policy owners in a difficult position—especially if their insurance needs have changed. Corporate policy owners face similar concerns when dealing with key-person or split-dollar policies insuring departed executives or with insurance purchased to fund an obsolete buy-sell agreement.

In some instances the best alternative is neither to hold the policy nor to surrender it. This article explains how CPAs can use a third option—a life settlement—to help eligible clients and employers dispose of unneeded life insurance policies now for more than the cash value rather than wait for the policy to pay off at the insured's death.

LIFE SETTLEMENTS—WHAT THEY ARE AND AREN'T

A life settlement turns insurance assets into cash, giving the original policyholder an amount greater than the cash surrender value in exchange for ownership of the policy. This option creates immediate revenue for companies or individuals holding unprofitable or unneeded policies.

Life settlements are not viatical settlements, which terminally ill policyholders often use to raise quick cash. Rather, the typical life settlement candidate has a life expectancy of between 2 and 12 years. The best prospects for such transactions are age 65 or older, have experienced a change in their health and are insured by a policy with a face amount of at least $100,000.

When an individual or business engages in a life settlement transaction, the amount it recoups is based on the

Life Settlement Facts

- Seniors own an estimated $500 billion in life insurance policies.
- Some $100 billion of these policies are eligible for life settlements.
- Life settlement providers will purchase $10 billion to $15 billion of insurance policies in 2005.

Source: "2005 Life Settlement Industry Outlook," Maple Life Financial, www.maplelifefinancial.com.

policy's face amount and cash surrender value as well as other factors, such as the insured's health, age and the current policy premium.

In a recent survey of accountants, attorneys, estate planners and insurance professionals by Maple Life Financial, a Maryland-based life settlement provider, 45% of respondents had clients over age 65 that had surrendered a life insurance policy for its cash value. Many instead could have qualified for a larger cash payment from a life settlement. Considering that cash surrender values average just 4% of policy face amounts, the decision to recommend a life settlement is an easy one for CPAs advising employers or clients unaware of the potential economic gain from these hidden assets.

When providing financial advice and strategic information to clients or employers, CPAs have a fiduciary responsibility to identify effective ways to eliminate assets that burden the client or employer with unnecessary expenses. For CPAs in public practice, marketing and promoting life settlements can be easy; many accountants have clients that fit the life settlement eligibility profile. Any number of situations can create the need for a settlement, including

- A change in interest rates that results in increased policy premiums.
- A change in a policyholder's business situation.
- A need for cash to fund medical or long-term care.
- Improved estate liquidity, a decrease in estate value or elimination of the federal estate tax, making an existing policy unnecessary.
- Bankruptcy.
- Divorce.
- Departing executives or business owners, making policies redundant.

STEP-BY-STEP

To start the process, select a professional life settlement broker to help get the best possible offers for the policy you wish to dispose of. Look for one with experience in the field and connections to major settlement providers. Exhibit 1, below, lists some questions CPAs should ask a broker in choosing one to represent a client or employer in a life settlement transaction.

It's important to select a broker who represents institutionally owned and funded settlement providers. These entities typically purchase policies using funds invested by large banks or financial companies as opposed to drawing on cash fronted by a loose organization of private investors. An institutionally owned and funded provider usually has more cash available to invest in policies and will adhere to high ethical

Exhibit 1: Choosing a Broker

- How many life settlement providers does the broker represent, and does it submit all cases to each provider? (If not, this may be a warning that there is an unfair agreement with a favored provider the broker has not disclosed that could be detrimental to the client.)
- Does the broker have due diligence materials for each of its life settlement providers, and will it provide the CPA with a summary of this material?
- Does the broker represent any private funding sources? If so, will it honor your instructions not to shop your policies to private sources (which we recommend avoiding)?
- How many life settlement transactions did the broker successfully fund in the last 12 months?
- What commission will the broker earn from the provider when a transaction is successfully completed?
- Is the broker licensed to do business in the necessary states to complete the transaction, and does it have errors & omissions coverage specifically for life settlement transactions?

EXECUTIVE SUMMARY

- **WHEN INDIVIDUALS OR BUSINESSES HAVE UNNEEDED** life insurance policies they have three options: continue paying the premiums until the insured's death, surrender the policy for the cash value or find a third party to buy the policy in a life settlement transaction. The last alternative usually is the most attractive if the insured is over 65, has experienced a change in health and has a life expectancy of 2 to 12 years.

- **LIFE SETTLEMENT TRANSACTIONS USUALLY** result in higher returns for the policy owner than simply surrendering the policy. The actual settlement depends on the policy's face amount and cash surrender value, the insured's health and age and the current policy premium.

- **THE FIRST STEP IS TO SELECT A BROKER TO HELP** get the best possible offers for the policy. The broker will help choose an appropriate provider. An institutionally owned and funded provider usually has more cash available to invest in policies and will adhere to high ethical standards.

- **A VARIETY OF SITUATIONS CAN CREATE THE NEED** for a life settlement, including a change in the policyholder's business situation, a need for cash to fund medical or long-term care, changes in the insured's estate, bankruptcy or divorce.

- **LIFE SETTLEMENT TRANSACTIONS MAY BE SUBJECT** to income taxes. The actual amount of taxable income depends on the policy's cash surrender value, cost basis (total premiums paid) and how much the policy owner receives for the policy. Some of the proceeds may be ordinary income and some may be treated as a capital gain.

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standards to protect both consumers and the entity's broader business interests. They also hold purchased policies in confidential portfolios. Most institutional funders are members of the Life Settlement Institute, a national trade association that represents institutionally funded companies. (See the list of life settlement providers in exhibit 2, at right.)

Another factor for CPAs to consider is whether the settlement provider has a strong due diligence and compliance program. Good due diligence will protect everyone's interests through background checks of all parties involved in the transaction, including the policy owner. A good compliance department will monitor and manage licensure, fraud prevention, broker-dealer issues and consumer privacy and ensure the company follows all federal and state regulations that apply to life settlement transactions.

As part of the process the broker submits the policy to selected providers, who review its terms and make an offer based on their calculation of the insured's life expectancy and other factors. Before advising clients or employers on whether to accept an offer, remember to discuss with them the commission they will pay the broker, how they should complete the closing package and the tax implications of life settlement transactions (discussed in greater detail below). Once you accept an offer and submit a complete closing package, it will be only a matter of days until your client or employer receives a cash payment for the policy.

Exhibit 2: Life Settlement Providers

Coventry First 7111 Valley Green Rd. Fort Washington, PA 19034 Phone: 877-836-8300 Fax: 215-402-8397 E-mail: info@coventryfirst.com Internet: **www.coventryfirst.com**	**Peachtree Life Settlements** 6501 Park of Commerce Blvd., #140B Boca Raton, FL 33487 Phone: 866-730-4411 Fax: 561-962-7205 E-mail: ssalani@lumpsum.com Internet: **www.life-settlementco.com**
Maple Life Financial 7316 Wisconsin Ave., #350 Bethesda, MD 20814 Phone: 877-777-0635 Fax: 301-951-1351 E-mail: moreinfo@maplelf.com Internet: **www.maplelifefinancial.com**	**Vespers** 1101 30th St., NW, #111 Washington, DC 20007 Phone: 888-777-5432 Fax: 202-333-4662 E-mail: info@vespersdirect.com Internet: **www.vespersfunding.com**

A case in point. Let's look at a scenario involving a 77-year-old female who owns an insurance policy with a $900,000 face amount and a current cash surrender value of $68,296. Karen Jones originally purchased the policy for


A paid-up exchange based
on market value. Sweet.
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estate planning purposes. Since both of her children now are married and financially secure, she believes she no longer needs the policy and has no desire to continue paying the premiums. Jones's CPA suggests she sell the policy to a life settlement provider. After working with her accountant to select a provider she receives $314,735 for the policy—an economic gain of $246,439 over the cash value she would have received from simply surrendering the policy. After setting aside some money to pay the taxes, she uses the policy proceeds to make donations to her two favorite charities.

UNNEEDED BUSINESS POLICIES

With more frequent activity between corporations—mergers, acquisitions, bankruptcies and top executives' changing jobs—it is becoming more important than ever for CPAs to review corporate insurance portfolios for life settlement candidates. Life settlements involving unneeded key-person or buy-sell policies can provide businesses with increased cash flow to solve immediate financial needs, while transactions concerning split-dollar policies can help facilitate retirement planning and charitable giving. For example, a partner still may own the remaining policy funding a buy-sell agreement after the other parties have retired. A life settlement option allows the surviving partner to earn cash for the policy, which he or she can use to buy a policy better suited to the company's current needs or reinvest into the business.

Another case in point. Over time the Widget Corp. purchased a combined $6 million in key-person life insurance on its CEO, Walter Smith. After many years of employment with the company, Smith left to pursue other interests. At the time he left the company Smith was age 81 and the policies had a combined cash value of $109,500. Although Widget could have waited until Smith's death to receive the full policy benefits, its annual premium payments were extremely high. The company's controller recommended the board of directors consider a life settlement. Widget Corp.—the policyholder in this case—engaged in a life settlement transaction and received $1.2 million—nearly 11 times the cash surrender value.

DON'T FORGET TAXES

Life settlement transactions can be subject to income taxes depending on the amounts involved. While there are no specific Internal Revenue Code provisions pertaining to life settlements, there are some general guidelines CPAs can use to help determine the tax implications.

■ If the policy has no cash surrender value, or the surrender value is lower than the policy cost basis (the total amount of premiums paid), then the amount of taxable income is the difference between the settlement

amount and the cost basis. That amount is treated as a capital gain.

■ If the cash surrender value is higher than the cost basis, then that difference is treated as ordinary income and taxed at the policy owner's marginal tax rate. The difference between the settlement amount and the surrender value is a capital gain.

■ If the policy cost basis is higher than the settlement amount there should be no taxable income from the transaction.

PRACTICAL TIPS

▶ When choosing a life settlement provider to acquire an unneeded insurance policy, select one that is both institutionally owned and funded.

▶ Make sure the provider performs appropriate due diligence on all parties before committing to a life settlement transaction.

▶ Calculate the estimated income tax liability in advance and advise the client or employer whether the life settlement transaction is in its best interest.

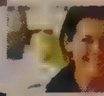
CPAs should advise clients and employers that specific situations may result in different tax consequences. Calculating the projected tax liability always should be part of the decision-making process before agreeing to a life settlement offer.

REGULATORY ISSUES

Many states have adopted laws and regulations covering life settlement transactions and viatical settlements. As of June 2005, 26 states had life settlement laws and 10 more were considering such legislation. Before recommending a life settlement to a client or employer CPAs should check to see what rules apply in their state for licensing requirements (some states may require the CPA to have an insurance license), distribution options, consumer protection and related issues.

SATISFYING SOLUTION

The beauty of life settlement transactions is that every party benefits, resulting in high levels of satisfaction among all links in the chain, including the CPA. Discovering the flexibility and profitability of these opportunities can help CPAs provide the best alternative to clients or employers for dealing with financially burdensome or lapsing life insurance policies. With the possible repeal of the federal estate tax still on the horizon, the number of unneeded policies may increase in the future. ■



The CPA Life Insurance Plan

Life

The CPA Life Insurance Plan

UP TO $2 MILLION OF TERM LIFE COVERAGE AVAILABLE

2005

The CPA Life Insurance Plan—Coverage for every phase of your life

The CPA Life Plan, with coverage issued by The Prudential Insurance Company of America, provides term life insurance that helps meet your financial needs. We recently lowered our rates, so whether you're just starting your career, preparing for retirement, or anywhere in between, you can choose the coverage amount that best fits your lifestyle at some of the most affordable costs we've ever offered.

A foundation to build on

Choose the amount of coverage that's right for your stage in life. For instance, members under 30 can get $100,000 of coverage for $24 to $36 a year. Whatever your needs, you can choose enough coverage to provide your loved ones with the financial security they will require if something happens to you.

Coverage that lasts

With up to $2 million in life insurance available, you can help ensure your family's financial future. If you're approved for coverage between the ages of 45 and 79, you'll automatically receive Select Status rates—25% to 50% lower than Standard rates. And unlike many individual plans, you don't need to submit blood or urine samples to qualify for CPA Life coverage—just answer a few simple health questions.

Exciting new coverage opportunities

The AICPA recently lowered rates for the Life Plan. Approved members can now get the best rates we've ever offered for their age and gender. Coverage rates have never been lower for most age ranges. If you've delayed purchasing life insurance because of the cost, now is the best time to enroll in the Plan. The new low rates allow you to get the coverage you need to protect all you've worked to build.

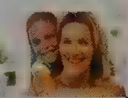
Cash refunds can save you even more

Each year the money we don't use for claims, overhead and other charges is distributed back to the Plan's participants in the form of an annual cash refund. Of course, since refunds depend on the amount of money paid out each year, as well as other factors, they can't be guaranteed. But they have been paid every year since 1958 and are expected to continue.

Insurance designed with you in mind

CPA Life can be your first step in protecting your family's financial future, or the missing link in your established financial plan. Whatever stage of life you're in, life insurance coverage from the AICPA can provide your family with the money they may need to keep your home and assets intact, at a time when the last thing they'll want to think about is money. With our new rates lowering the cost of coverage, there is even more reason to act. Apply for coverage today at www.cpai.com/life—it's fast, secure and convenient. Don't put it off another minute.

Watch your mail for details or visit www.cpai.com/life



New Lower Rates!

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Vendors improve their technology support.

Tax Software Makes the Grade

BY STANLEY ZAROWIN

Tax practitioners had reason to celebrate this year: Their software, as assessed in the annual *Journal of Accountancy* survey of tax-preparation software, performed better than it did last year. Adding to the joy, they're no longer threatened with the possible need to convert to a new software package to replace orphan products that competitors acquired and then folded. With the number of vendors down to fewer than 20, from a high of 110 a decade ago, hardly any products seem susceptible to takeover.

When asked to rate their overall satisfaction with the 13 tax software products in the survey this year, the 3,156 AICPA Tax Section members who responded to the survey came up with a combined average score of 4.23 (out of a perfect 5.00), a significant gain from last year's 4.03. In addition to the eight packages rated last year, three new products received the minimum required 10 responses from our CPA respondents. (For details about all the vendors in the survey, see exhibit 1, page 49; for a complete scorecard on the satisfaction grades, see exhibit 2, page 50; and for technical details about the products, see exhibit 6, page 54.) *(continued on page 52)*

Exhibit 1: Tax Software Vendors

Tax program	Vendor	Postal address	Telephone	E-mail	Web site
ATX's 1040, 1040 Office, MAX	ATX/Kleinrock	P.O. Box 1040 Caribou, ME 04736	877-728-9776	sales@atxinc.com	www.atxinc.com/index.aspx
Drake Software	Drake Software	235 East Palmer St. Franklin, NC 28734	800-890-9500	info@ drakesoftware.com	www.drakesoftware.com
GoSystem Tax RS	RIA	2395 Midway Rd. Building 1 Carrollton, TX 75006	800-865-5257	gosystem.sales@ thomson.com	gosystem.thomson.com
Lacerte	Intuit Inc.	5601 Headquarters Dr. Plano, TX 75024	800-765-7777	None	www.lacertesoftware.com
ProSeries	Intuit Inc.	6220 Greenwich Dr. San Diego, CA 92122	800-934-1040	None	www.proseries.com
ProSystem *fx* Tax	CCH Tax and Accounting	21250 Hawthorne Blvd. Torrance, CA 90503	800-739-9998	sales@prosystemfx.com	tax.cchgroup.com
Tax Software for the Professional	Dunphy Systems Inc.	6740 Huntley Rd. Suite 103 Columbus, OH 43229	614-431-0846	dunphysupport @sbcglobal.net	www.dunphy.com
TaxACT Preparer's Edition	2nd Story Software Inc.	5925 Dry Creek Ln. NE Cedar Rapids, IA 52402	800-573-4287	CustomerService @taxact.com	www.taxact.com
TaxSlayer Pro	TaxSlayer Pro	610 Ronald Reagan Dr. Evans, GA 30809	888-420-1040	sales@taxslayerpro.com	www.taxslayerpro.com
Taxware Tax Preparation	Taxware Systems Inc.	924 W 9th St. Upland, CA 91786	800-877-1065	sales@Taxware Systems.com	www.taxwaresystems.com
TaxWise	Universal Tax Systems Inc.	6 Mathis Dr. NW Rome, GA 30165	800-755-9473	sales@taxwise.com	www.taxwise.com
TaxWorks	TaxWorks	350 North 400 West Kaysville, UT 84037	800-230-2322	Sales@taxworks.com	www.taxworks.com
UltraTax CS	Creative Solutions	7322 Newman Blvd. Dexter, MI 48130	800-968-8900	CS.Sales@ thomson.com	www.creativesolutions. thomson.com/tax

Exhibit 2: Ratings

Tax program	Number of respondents	Satisfaction (1 = very dissatisfied, 5 = very satisfied) Were you satisfied with the installation process?	With the ease of learning?	With the ease of use?	Overall product rating	Overall product rating last year
ATX	130	4.73	4.28	4.32	4.40	3.59
Drake Software	66	4.40	4.35	4.24	4.44	*
GoSystem Tax RS	126	4.11	3.48	3.49	3.82	3.92
Lacerte	815	4.63	4.35	4.43	4.46	4.32
ProSeries	372	4.58	4.37	4.39	4.28	4.07
ProSystem *fx* Tax	987	4.13	3.71	3.71	4.09	4.35
Tax Software for the Professional	12	4.23	4.50	4.58	4.46	*
TaxACT Preparer's Edition	11	4.31	4.55	4.34	4.20	*
TaxSlayer Pro	10	4.30	3.91	3.82	3.63	*
Taxware Tax Preparation	12	4.30	4.39	4.40	4.44	*
TaxWise	19	4.52	4.37	4.32	4.41	3.42
TaxWorks	32	4.46	3.13	3.03	3.95	4.21
UltraTax CS	564	4.54	4.05	4.34	4.41	4.35
Average		**4.40**	**4.11**	**4.11**	**4.23**	**4.03**
Total	**3,156**					

* Not rated last year.

Exhibit 3: Switching Products

Tax program	Percentage who planned to use the same product next year	Percentage who would recommend the product to a colleague	Satisfaction with conversion package rating ([illegible])
ATX	84.6%	83.1%	4.50
Drake Software	84.8%	81.9%	3.58
GoSystem Tax RS	77.8%	73.9%	2.30
Lacerte	91.0%	89.2%	3.33
ProSeries	80.4%	78.3%	3.32
ProSystem *fx* Tax	93.2%	92.7%	3.69
Tax Software for the Professional	91.7%	91.7%	N/A
TaxACT Preparer's Edition	63.6%	60.7%	1.00
TaxSlayer Pro	80.0%	77.0%	N/A
Taxware Tax Preparation	83.3%	82.8%	N/A
TaxWise	78.9%	78.1%	4.00
TaxWorks	93.8%	93.6%	N/A
UltraTax CS	93.8%	91.2%	3.79
Average	**84.4%**	**82.6%**	**2.27**

Support rating	Support rating last year	Percentage whose software ran on a network	Network rating	Network rating last year	Percentage who said the product contained all the necessary forms
4.12	2.90	25.0%	4.55	3.42	96.0%
4.47	*	56.0%	4.74	*	85.0%
3.96	2.48	71.0%	4.06	4.21	81.0%
4.32	4.13	73.0%	4.55	4.17	84.0%
3.90	4.00	43.0%	4.14	3.59	63.0%
4.37	2.09	84.0%	4.54	4.38	87.0%
4.40	*	50.0%	4.60	*	92.0%
4.30	*	18.0%	3.50	*	80.0%
3.60	*	40.0%	2.50	*	50.0%
4.42	*	58.0%	4.71	*	75.0%
4.26	3.33	47.0%	4.60	3.88	84.0%
4.32	2.34	78.0%	4.80	4.18	78.0%
4.47	2.18	82.0%	4.66	4.32	93.0%
4.22	**2.93**	**55.8%**	**4.30**	**4.02**	**80.6%**

	Reasons for switching products					
	Price	Hard to use	Hard to install	Customer support	Lacked necessary functions	Was not accurate
Tax program						
ATX	1.5%	0.0%	0.0%	0.8%	0.8%	0.0%
Drake Software	13.6%	3.0%	1.5%	6.1%	3.0%	0.0%
GoSystem Tax RS	0.0%	0.8%	0.8%	0.8%	5.6%	0.8%
Lacerte	0.0%	0.0%	0.0%	0.0%	0.1%	0.0%
ProSeries	1.1%	0.5%	0.0%	0.3%	1.3%	0.8%
ProSystem *fx* Tax	0.5%	0.2%	0.0%	0.7%	2.2%	0.2%
Tax Software for the Professional	0.0%	0.1%	0.0%	0.1%	0.0%	0.0%
TaxACT Preparer's Edition	9.1%	0.0%	0.0%	18.2%	0.0%	0.0%
TaxSlayer Pro	0.0%	0.0%	0.0%	0.1%	0.0%	0.0%
Taxware Tax Preparation	8.3%	0.0%	0.0%	0.1%	0.0%	0.0%
TaxWise	5.3%	0.0%	0.0%	0.2%	0.0%	0.0%
TaxWorks	6.3%	0.0%	0.0%	0.0%	3.1%	0.0%
UltraTax CS	3.5%	0.4%	0.0%	1.2%	2.3%	0.4%
Average	**3.8%**	**0.4%**	**0.2%**	**2.2%**	**1.4%**	**0.2%**

Tied for first place in the overall-satisfaction category, with ratings of 4.46, were Intuit's highly popular Lacerte and the much smaller Dunphy System's Tax Software for the Professional. Lacerte inched up from last year's 4.32 rating; since Dunphy was not in last year's survey, it has no year-ago rating. Tied for second place with 4.44 were Drake Software and Taxware System's Taxware Tax Preparation; both are new to the survey this year.

BIG GAINS

The area that posted the biggest improvement was technical support, scoring 4.22, compared with a woeful 2.93 last year. At that time tax preparers complained bitterly that most vendors failed to meet their emergency needs: Vendor staffs were overwhelmed with questions and had too few experts available to respond with effective answers.

The support services of Drake and Creative Solutions' UltraTax tied for first place with 4.47 each. UltraTax, which scored only 2.18 last year, clearly undertook a major overhaul of its tech-support operation for this year.

Also heartening to CPA firms, which are making more use of networks to link their offices' computers, were improvements in the way their tax software operates on those networks. That average rating rose sharply to 4.30 this year from 4.02 a year ago.

THREAT PAUSE

While the immediate threat of continued vendor consolidation appears to have subsided, the market may not have reached a state of equilibrium with a settled number of vendors. The next few years may see yet another kind of transformation in the tax software market. As reliable high-speed—and eventually ultra-high-speed—Internet connections become widespread, vendors probably will begin redesigning the way they make their products available to customers. Currently most customers either download the software or are mailed a set of compact disks, with last-minute upgrades usually transmitted via the Internet. But reliable, fast Internet connections offer the possibility of speedier and more economical and reliable tax preparation. Instead of loading the software on their own computers and working on their local networks, most customers likely will access a central tax software utility.

A similar type of central utility service—this one for accounting—is slowly gaining ground, though obstacles remain. One big issue is whether the data, which are calculated and stored at the remote utility, are secure—not just from loss but also from hackers and industrial spies. The recent thefts of bank and credit card data undermine CPAs' confidence in such a system. In time, however, it's likely that security techniques will eliminate such dangers.

However, setting up a utility for tax preparation requires both sizable capital and new technical skills—an open invitation for new entries and partnerships in the existing software market. The bottom line: The next few years may bring significant changes in the tax software field, with smaller firms either partnering with high-tech organizations

(continued on page 58)

Exhibit 4: Filing Statistics

Tax program	Number of federal returns prepared for the 2004 tax year	Percentage prepared for individuals	Percentage prepared for businesses and nonprofits	Percentage of federal returns e-filed	Percentage of federal returns e-filed last year
ATX	252	67.0%	27.7%	40.4%	30.7%
Drake Software	644	72.9%	22.7%	66.6%	53.7%
GoSystem Tax RS	1,119	47.7%	45.3%	15.9%	10.4%
Lacerte	674	69.1%	67.3%	67.4%	31.3%
ProSeries	370	69.9%	26.2%	38.2%	26.9%
ProSystem *fx* Tax	1,062	80.4%	36.2%	37.9%	25.5%
Tax Software for the Professional	8,014	67.1%	53.3%	51.6%	45.0%
TaxACT Preparer's Edition	65	61.0%	16.2%	14.6%	13.5%
TaxSlayer Pro	803	66.9%	33.1%	61.4%	44.1%
Taxware Tax Preparation	463	72.3%	25.8%	2.10%	2.4%
TaxWise	311	80.3%	19.3%	58.3%	60.9%
TaxWorks	587	20.0%	27.8%	55.8%	41.5%
UltraTax CS	743	66.0%	30.4%	45.7%	33.1%
Average	**1,162**	**64.9%**	**25.8%**	**42.8%**	**32.2%**

Exhibit 5: Special Client Services

Tax program	Percentage offering tax refund advances	Percentage of filings that included such advances	Percentage that planned to offer that service next year	Percentage that offered online organizers this year	Percentage of clients that used them
ATX	5.4%	7.1%	4.6%	13.1%	7.1%
Drake Software	21.2%	17.4%	19.7%	9.1%	10.8%
GoSystem Tax RS	0.0%	0.0%	0.0%	20.6%	2.8%
Lacerte	0.6%	6.7%	0.5%	22.6%	5.3%
ProSeries	4.3%	7.5%	4.0%	9.1%	7.8%
ProSystem *fx* Tax	1.5%	13.6%	0.4%	25.5%	5.2%
Tax Software for the Professional	0.0%	0.0%	0.0%	0.0%	0.0%
TaxACT Preparer's Edition	0.0%	0.0%	0.0%	18.2%	6.0%
TaxSlayer Pro	20.0%	4.0%	20.0%	0.0%	0.0%
Taxware Tax Preparation	9.0%	14.0%	10.0%	5.0%	12.0%
TaxWise	10.5%	11.8%	10.5%	15.8%	51.0%
TaxWorks	0.0%	0.0%	0.0%	6.3%	7.5%
UltraTax CS	1.8%	2.4%	1.4%	26.8%	3.9%
Average	**5.7%**	**6.5%**	**5.5%**	**13.2%**	**9.2%**

Number of state returns prepared	Percentage of state returns e-filed	Percentage of state returns e-filed last year	Percentage who charged extra for e-filing	Percentage who planned to charge extra for e-filing next year
224	37.4%	28.3%	10.8%	16.9%
479	63.0%	50.9%	7.6%	6.1%
9,270	14.5%	8.9%	20.6%	29.4%
543	39.7%	28.2%	25.0%	33.4%
315	33.4%	23.6%	33.1%	38.2%
918	32.3%	21.1%	23.6%	30.2%
6,169	47.5%	39.2%	58.3%	66.7%
29	12.4%	8.3%	18.2%	36.4%
258	40.3%	31.7%	30.0%	50.0%
261	2.8%	37.2%	33.3%	41.7%
250	60.2%	54.9%	26.3%	26.3%
419	51.5%	37.0%	31.3%	34.4%
601	40.7%	29.1%	25.2%	30.5%
1,498	**31.3%**	**24.5%**	**26.4%**	**33.8%**

Exhibit 6: Product Details

	ATX's 1040, 1040 Office, MAX	Drake Software	GoSystem Tax RS	Lacerte	ProSeries
Product prices					
1040	ATX's 1040: $375 ATX's 1040 Office: $575 MAX: $985	$995–$1,395	Starts at $2,500	$2,140	Starts at $949
1040 renewal	Early renewal discount ended May 31	$995–$1,395	Starts at $2,500	$1,819	A three–year price lock for early renewal ended June 30
State package	ATX's 1040: 3 states free ATX's 1040 Office: Free MAX: Free	Free	Included	$235–$340	$249–$349
State renewal	Same	Same	Same	$199–$289	Same
Additional fee for laser package	No	No	No	No	No
Per–return pricing	Separate product, PRS, allows 10 e–files for $150	$10/return	No	1040 and one state: $22; business, trust, estate and one state: $40; gift tax, employee benefits and one state: $30	$15/1040; $11/state
Additional cost for electronic filing software	No	No	No	No	No
Additional cost per electronically filed return	No	No	$5/1040; $2/state	$2/1040; $2/state; $950/unlimited	$3/1040; $2/state; $250/unlimited
Conversion package available	Yes	Yes	Yes	Yes	Yes
Cost of conversion package	Free	Free	$10/return	Free	Free
Filing					
Do you provide direct filing (DF), service bureau (SB) or both?	Both	Both	DF	SB	DF
Can you electronically file state returns?	Yes	Yes	Yes	Yes	Yes
Do you allow for electronic signature?	Yes	Yes	Yes	Yes	Yes
Market					
Number of individual users of 2004 package	50,000+	No charge for multiuser capability	75,000	No charge for multiuser capability	No charge for multiuser capability
Number of firms using product	N/A	18,530	N/A	40,293	55,593
Percentage of renewals from 2003 package	About 90%	96%	99.5%	93.62%	85.95%
Number of years in business	13	28	40	27	22

ProSystem fx Tax	Tax Software for the Professional	TaxACT Preparer's Edition	TaxSlayer Pro	Taxware Tax Preparation	TaxWise	[illegible]	UltraTax CS
$2,975	$849	$99	$995	$1,250	A la carte: $695 ProFiling: $1,112 Power: $2,295	$1,095	$2,000
Call for details	$699	$79	$750	$1,250	A la carte: $556 ProFiling: $896 Power: $1,836	$995	$1,700
$315–$755	$319–$379/first two states; after that, $50/state	$12.95/state; $51.80/all	Free	Free	A la carte: $295/1–5 states; $695/all states. ProFiling: Free Power: Free	$345	$200–$300
Call for details	Same	Same	Same	Same	A la carte: $236/ 1–5 states; $556/all states. ProFiling: Free Power: Free	$200	Same
No	No	Laser package unavailable	No	No	No	No	No
$27	No	No	No	No	$100 fee ($300 nonrefundable deposit against $15/return)	$15/return ($400 deposit)	$16/1040; $9/state
$100	$99–$499	No	No	No	No	No	No
$3/return; $1,000/unlimited	$1–$5/return; free for direct filers	Starting at $7.95/1040; $3.50/state. Free after 100th return. $350/unlimited 1040; $150/unlimited state.	No	No	A la carte: $4/1040, $1/state; ProFiling: $1/1040, $.50/state Power: Free	Varies on volume	$2/1040; $1/state; $1,000/unlimited
Yes	No	No	Yes	Some	Yes	Yes	Yes
Free			Call for details	Free	Free	Free	Free
Both	Yes	SB	Both	Both	Both	SB	Both
Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes
Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes
N/A	N/A	N/A	7,200	Variable	75,000	N/A	81,000
20,000+	N/A	N/A	3,500	Variable	25,000	About 4,000	19,000
96%	N/A	N/A	98%	96%	96%	93%	95%+
40+	21	8	41	25	20	33	26

(continued on page 56)

Exhibit 6: Product Details (continued)

	ATX's 1040 1040 Office, MAX	Drake Software	GoSystem Tax RS	Lacerte	ProSeries
Support					
Toll-free number for support	Yes	No	Yes	Yes	Yes
Days and hours (Eastern time) support available during tax season	M–F 8–midnight; Sat. 9–5	M–F 8–10; Sat. 8–6	M–F 9–8; Sat. 10–6; Sun. 11–5	M–F 6–6; Sat. 7–2; Sun. 9–2; 24 hours last week of tax season	M–F 7:30–9; Sat.10–5; Sun. 12–5; 24 hours last week of tax season
Days/hours support available during off–season	M–F 8–10; Sat. 9–5	M–F 8–9; Sat. 9–5	M–F 9–8	M–F 6–5	M–F 9–8
Number of tax season support staff	200+	200+	24 (1040 only)	500	500+
Online support	Yes	Yes	Yes	Yes	Yes
Technology					
What operating system(s) does product run on?	Windows 98 and above	Windows 98, ME, 2000, XP, NT (4.0 or higher)	Windows XP	Windows 98, 2000, ME, NT, XP	Windows 98, ME, 2000, XP Pro or Home, NT
Recommended operating system	Windows 98 and above	Windows XP	Windows XP	Same	Windows 2000, XP Professional or Home
Program size in Mb	350 Mb	87 Mb without states; 233 Mb with states	226 Mb with 1040 only	38 Mb for 1040 and operation files; 12 Mb for 1040; and 26 Mb for global program	650 Mb
Minimum RAM recommended	128 Mb	64 Mb for Windows 95, 98, 2000 or NT; 128 Mb for ME or XP	256 Mb	256 Mb for all but XP, which uses 512 Mb	128 Mb
Display and data					
IRS data displayed on-screen	Yes	Yes	Yes	Yes	Yes
Vendor data displayed on-screen	Yes	Yes	Yes	Yes	Yes
Batch processing	Yes	Yes	Yes	Yes	Yes
Heads-down data entry	No	Yes	Yes	Yes	Yes
Program management tools					
Reports	Yes	Yes	Yes	Yes	Yes
Organizers	Yes	Yes	Yes	Yes	Yes
Labels	Yes	Yes	Yes	Yes	Yes
Client letters	Yes	Yes	Yes	Yes	Yes
Scheduling program	No	Yes	No	Yes	No
Other packages available					
Online tax-preparation option	No	Yes	Yes	No	No
State packages available	Yes	Yes	Yes	Yes	Yes
Multistate package available	Yes	Yes	Yes	Yes	Yes
Does your product include the following:					
1120	Yes	Yes	Yes	Yes	Yes
Included in price of 1040	ATX's 1040: No ATX's 1040 Office: No MAX: Yes	Yes	Yes	No	No

ProSystem fx Tax	Tax Software for the Professional	TaxACT Preparer's Edition	TaxSlayer Pro	Taxware Tax Preparation	TaxWise	TaxWorks	UltraTax CS
Yes	No	No	No	Yes	Yes	Yes	Yes
M–F 8:30–9:30; Sat. 9–8; Sun. in April: 10–6; 24 hours last week of tax season	M–F 8–6; Sat. 9–1	M–F 9–10; Sat. 9–6;	M–F 8–11; Sat.–Sun. 8–9 Sun. 1–6	M–F 9–9; Sat. 11–3	M–F 8:30–midnight; Sat. 8:30–5; Sun. 1–5	M–F 7–8; Sat. 7–4	M–F 9–10; Sat. 9–6; selected Sun.
M–F 9–8; selected Sat. 9–6	M–F 9–5	M–F 9–6	M–F 8:30–4:30	M–F 11–8	M–F 8:30–5:30	M–F 8–5	M–F 9–8
450+	Varies	75	35	Varies	300	50	100+
Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes
Windows 98, 2000, ME, NT Workstation ver. 4.0, XP Pro, MDAC ver. 2.6	Windows 3.1, 95, 98, ME, 2000, XP, 2003 Server, DOS 3.1 or higher	Windows 95, 98, ME, 2000, XP	Windows 98SE, ME, 2000, NT, XP	Windows 98, 2000, XP	Windows 2000 or later	Windows 2000, XP	Windows 98SE, 2000 Professional SP2, XP Pro, 2003 Server
Windows XP	Windows XP	Any of the above	Windows XP Pro	Windows XP, 2000	Windows 2000 or later	Windows XP	Windows XP, 2003 Server
100 Mb	5 Mb	30 Mb	150 Mb	65 Mb	8.13 Mb	80 Mb	30 Mb
256 Mb	640 K	16 Mb	128 Mb	256 Mb	128 Mb	128 Mb minimum, 256 Mb recommended	128 Mb minimum; 256 Mb recommended
Yes	Yes	Yes	Yes	Yes	Yes	Yes	No; link to IRS sites provided
Yes	Yes	Yes	Yes	Yes	Yes	Both vendor and IRS	Yes
Yes	No	No	Yes	Yes	Yes	Yes	Yes
Yes	No	No	Yes	Yes	Yes	Yes	Yes
Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes
Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes
Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes
Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes
Yes	No	No	No	No	Yes	Yes	Yes
Yes	No	No	Yes	No	No	No	Yes
Yes	No	Yes	Yes	Yes	Yes	Yes	Yes
Yes	Yes	Yes	Yes	Yes	Yes	Yes	No
Yes	Yes	No	Yes	Yes	Yes	Yes	Yes
No	Yes		No	No	Yes, with Executive and Power	No	No

(continued on page 58)

Exhibit 6: Product Details [continued]

	ATX's 1040 1040 Office, MAX	Drake Software	GoSystem Tax RS	Lacerte	ProSeries
1120S	Yes	Yes	Yes	Yes	Yes
Included in price of 1040	ATX's 1040: No ATX's 1040 Office: No MAX: Yes	Yes	Yes	No	No
1065	Yes	Yes	Yes	Yes	Yes
Included in price of 1040	ATX's 1040: No ATX's 1040 Office: No MAX: Yes	Yes	Yes	No	No
1041	Yes	Yes	Yes	Yes	Yes
Included in price of 1040	ATX's 1040: No ATX's 1040 Office: No MAX: Yes	Yes	Yes	No	No
990	Yes	Yes	Yes	Yes	Yes
Included in price of 1040	ATX's 1040: No ATX's 1040 Office: No MAX: Yes	Yes	Yes	No	No
706	Yes	Yes	Yes	Yes	Yes
Included in price of 1040	No	Yes	Yes	No	No
709	Yes	Yes	Yes	Yes	Yes
Included in price of 1040	ATX's 1040: No ATX's 1040 Office: No MAX: Yes	Yes	Yes	No	No
State support					
	All states supported	All states supported	All states supported	All states supported	All states supported

or being bought out by one of the better-capitalized tax software vendors.

WHY CPAs SWITCHED

Despite the lessening of the vendor consolidation threat, CPA firms continue to meander from one software product to another. Last year 11% said they were moving to another package because of dissatisfaction with their current product; this year nearly 16% reported such unhappiness and planned to order different software for 2006 (see exhibit 3, page 50). Some 3.8% of users cited price as the major reason to switch, while 2.2% cited poor customer support.

Meanwhile, the percentage of e-filings continues to rise. Accountants who responded to the survey e-filed an average 42.8% of their federal returns, up from 32.2% last year. State e-filing rose to 31.3%, up from 24.5% (see exhibit 4, page 52). In addition, 26.4% of respondents charged clients for e-filing services, and next year that percentage will rise to 33.8%. Exhibit 4 also shows the average percentage breakdown between tax preparations for businesses/nonprofits (64.9%) and for individuals (25.8%) for each brand of software.

SPECIAL SERVICES

A small percentage (5.7%) of survey respondents offered tax-refund advances as part of their service, about the same as last year (exhibit 5, page 53). Exhibit 5 also provides a glimpse into which software products those firms that offer such advances use most frequently: Drake (21.2%), TaxSlayer Pro (20.0%), TaxWise (10.5%) and Taxware Tax Preparation (9.0%).

SOFTWARE PROFILES

Only four products received a sufficient number of respondents' answers for us to provide profile details on their tax-service customers. A CPA firm may find such information useful in determining whether a product is well-suited to its needs—in terms of the size of most of its customers, its

ProSystem *fx* Tax	Tax Software for the Professional	TaxACT Preparer's Edition	TaxSlayer Pro	Taxware Tax Preparation	TaxWise	TaxWorks	UltraTax CS
Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes
No	No	No	Yes	No	Yes, with Executive and Power	No	No, included in price of 1120
Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes
No	No	No	Yes	No	Yes, with Executive and Power	No	No
Yes	No	No	Yes	Yes	Yes	Yes	Yes
No			Yes	No	Yes, with Executive and Power	No	No
Yes	No	No	Yes	Yes	Yes	Yes	Yes
No			Yes	No	Yes, with Executive and Power	No	No
Yes	No	No	No	Yes	Yes	Yes	Yes
No				No	Yes, with Executive and Power	No	No
Yes	Yes	No	No	Yes	Yes	Yes	Yes
No	No			No	Yes, with Executive and Power	No	No
All states supported	States not supported: Ala., Ariz., Calif., Colo., Del., District of Columbia, Hawaii, Idaho, Maine, Md., Mont., N.H., N.D., R.I., Utah, Vt., Wis.	States not supported: Ark., Fla., Nev., S.D., Tenn., Texas, Wash., Wyo.	All states supported	State not supported: Vt.	All states supported	In Ariz. only the business return not included	All states supported

ownership (sole practitioner, number of partners) and the type of clients it serves.

Lacerte: 34% of its customers are sole practitioners with an average staff of 1.3 professionals. About half have two to four partners, 10% have five to nine and 0.5% have between 20 and 49. Fourteen percent of its customers have multiple offices.

ProSeries: 44% of its customers are sole practitioners, with an average staff of 1.1 professionals. Nearly half have two to four partners and only 2% have more than 10.

ProSystem *fx*: 14% are sole practitioners with an average staff of two professionals; 29% have multiple offices and 15% are regional firms.

GoSystem: None of its customers is a sole practitioner; 64% have multiple offices. Most of its customers are regional, national and international firms.

UltraTax: 29% of its customers are sole practitioners with an average staff of 1.9 professionals; 20% have multiple offices with an average of 2.7 offices.

Use this guide to help you select the software product that most closely fits your needs. Be aware there is no such thing as a perfect product; what works for you may be a disaster for another tax preparer. Detailed product data and judgmental ratings from your peers, while valuable, are not the only—and surely not the best—way to make a software choice. The information is most useful for weeding out the products that are clearly unsuitable for you.

There is only one effective way to make a final decision—and that is to download an evaluation copy of the software and test-drive it with live data. While time-consuming, it tells you exactly what you need to know to make a final decision. We wish you success in locating the product that best serves your needs. ■

STANLEY ZAROWIN, a former *JofA* senior editor, is now a contributing editor to the magazine. His e-mail address is zarowin @mindspring.com.

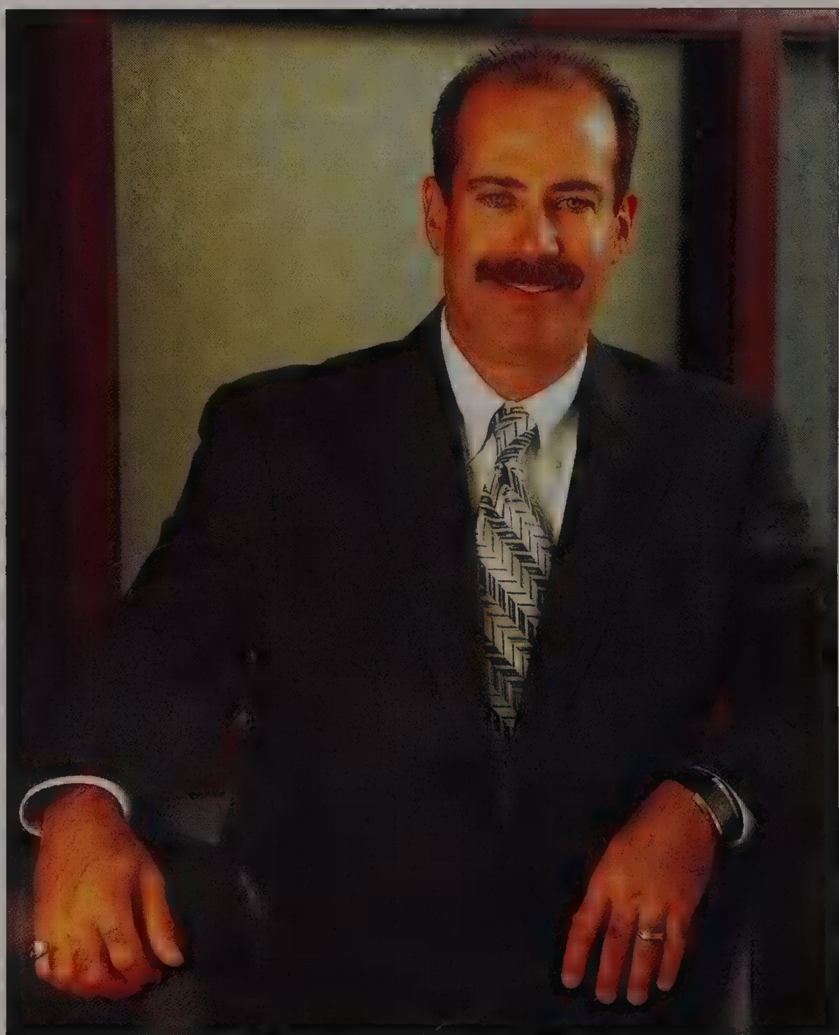
The Sarbanes-Oxley cloud has a silver lining—unzip it.

Second-CPA-Firm Update

BY ANITA DENNIS

The Sarbanes-Oxley Act and the PCAOB have created tremendous demand for accounting expertise. That has resulted in opportunities for small firms that can help companies implement the act's ongoing requirements, take on engagements the company auditor may no longer perform or pick up assignments that larger firms forgo because they are too involved in Sarbanes-Oxley-related engagements (see "Small Firms: Think Big!" *JofA*, Jun.04, page 22, and "Section 404 Opens a Door," *JofA*, May04, page 55). In many cases, the services required are core competencies, and small firms' competitive rates and depth of knowledge make them strong competitors.

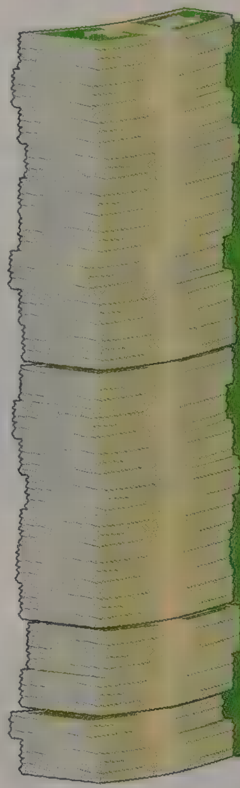
How can small firms position themselves to become the second CPA firm—beyond the auditors—to serve clients' needs? You don't have to reinvent your firm. The services in demand aren't exotic new specialties or complicated compliance services; they're exactly the kinds of engagements small firms have been providing for years. The trick is to understand the new demand for your firm's core competencies and then search out the clients and referral sources that need them. Firms have had a year or more to explore this market, so the *JofA* spoke to some CPAs with a track record in this area about their experiences. In addition, "Marketing Tips to Success," page 63, offers detailed practice-development advice.



Larry King, CPA, of KBA Group LLP, Dallas, says its creative marketing blitz generated a lot of section-404-related work and brought in new audit clients that had been looking to switch firms.

ONGOING OPPORTUNITIES

"We have gotten roughly $1 million in new work in the past year and we expect to get a fairly sizable amount more," says Larry King, CPA, of 75-person KBA Group LLP in Dallas. The largest engagements



Big Money

The SEC estimated the aggregate annual costs of implementing section 404(a) of the Sarbanes-Oxley Act to be about $1.24 billion, or $91,000 per company.

Source: www.klariti.com/sox/Sarbanes-Oxley-Act-facts-figures.shtml.

are implementations related to Sarbanes-Oxley's section 404 and to SAS no. 70, *Service Organizations*, which involve an auditor's evaluation of a service organization's controls. Once the effort to meet the initial implementation deadline is over, however, further internal control implementation and remediation work may well be a source of ongoing engagements.

"The firm initially saw it as a long-term business opportunity, even beyond the initial surge of implementation," King says, referring to, among other things, the act's ongoing documentation and internal controls testing requirements. "We believe there will be continuing opportunities in internal control work, changing software practices to accommodate the new requirements and other areas. We've also found a big market for internal control outsourcing among companies that don't have the resources in-house to comply with all the requirements." To meet the demand, the firm created a risk advisory services division, hiring a principal in charge of the area and a staff of six that is expected to grow to nine by early 2006.

"We got the work almost exclusively through active marketing, using the tagline 'Cover Yourself: Get SOX,' " King says. "Our marketing director ran ads in the local business journal and did a mass mailing to public companies throughout Texas. We followed up by sending these companies mailing tubes with monogrammed socks in them and some marketing materials." The firm then sent prospects a white paper and another mailing with golf balls and tees with the firm's logo. Those efforts, along with a telemarketing campaign, not only generated significant section-404-related work but also brought in several new clients who had been considering changing auditors.

Now that large companies have generally tackled their initial Sarbanes-Oxley implementation, the firm is fashioning a new marketing campaign to gain work helping companies with ongoing remediation and internal control outsourcing. It also has picked up tax work that companies chose to give to firms other than their auditors. In one case, a company's audit committee was contacted by a whistleblower; the corporate counsel engaged King's firm to investigate because it could offer an outsider's objectivity. The firm's risk advisory services area also consults with corporate boards and audit committees.

HELP ON THE WAY

Similarly, Weaver and Tidwell LLP, a regional firm in Texas, built a practice billing upwards of $4 million through internal audit outsourcing, section 404 compliance and information technology auditing, says partner Alyssa Martin, CPA. Its tax and business services group has won about $600,000 in engagements to provide small and midsize companies with services their auditors can no longer perform for them or choose not to, including accounting, tax and tax planning, financial reporting and due diligence. And the audit group has won about 10 engagements that Big Four firms

(continued on page 64)

EXECUTIVE SUMMARY

- **SMALL FIRMS CAN HELP COMPANIES** implement the Sarbanes-Oxley Act's ongoing requirements, take on engagements the company auditor may no longer perform or pick up assignments that larger firms forgo because they are too involved in Sarbanes-Oxley-related engagements.

- **SECOND-CPA-FIRM WORK IS VARIED:** One firm is tailoring a new marketing campaign to helping companies with ongoing remediation and internal control outsourcing; it also has picked up tax work that companies chose to give to firms other than their auditors. Another firm won a documentation engagement, set up purely as a consulting project in which the firm followed AICPA *Professional Standards* and reported to the CFO.

- **CLIENTS SEEKING AN ADVISORY FIRM** are looking for skilled staff who understand internal controls and have an audit background, the opportunity to work with a firm in a collegial rather than adversarial relationship and a reasonable price.

- **FOR LARGE FIRMS, PUBLIC ISSUERS** are A-list clients. Their B-list (which might be private companies, not-for-profits or governments) may very well constitute first-rate clients for local firms.

- **TO OBTAIN BUSINESS, FIRMS SHOULD** begin to form alliances with other CPAs and attorneys who are involved in SEC work—and demonstrate that the alliance is good for both sides. When wooing a potential referral source, firms should make sure the client understands what the firm has to offer.

ANITA DENNIS is a *JofA* contributing editor and freelance business writer.

Marketing Tips to Success

Here's a step-by-step program for identifying your firm's options and capitalizing on them.

Identify your firm's strengths. Understand your practice's particular strengths. Ask and answer questions such as: Does our firm have a strong audit staff that can take on audits that other firms no longer want or are able to handle? Could we provide internal audit outsourcing based on their previous industry experience? Do we have specialties—from tax to business valuation—we could market to auditors or their clients?

Firms that target Sarbanes-Oxley-related opportunities say they have noted increased demand for an array of services, including

- Internal audit outsourcing.
- Accounting services (including write-up).
- Audit preparation services (such as workpaper preparation).
- Inventory-related services.
- Reconciliation services.
- IT support and management services.
- Controllership.
- Tax services.
- Business valuation.
- Valuation of intangibles.
- Due diligence services.
- Audit committee guidance.
- Unconsolidated subsidiaries.
- Financial services.
- Special projects.

Research your market. Once you have inventoried your strengths, look into likely prospects in your local market. It may be possible to form alliances with large-firm offices to work together on engagements, or to get good referrals from them. Find out which of their partners have the kinds of clients your practice could best serve.

Similarly, smaller firms shedding audit engagements may be willing to give referrals or even share engagements. Consider offering a pilot program in which you work together on one client; suggest signing a noncompete agreement so they will refer clients to your practice.

You'll also want to market directly to companies. Identify the kinds of services public companies located in your area might need.

Identify your objectives. Narrow the list to a specific set of services and decide how your firm can provide them. Make decisions by matching your firm's existing skills with your market's needs. Will you add new staff? Will you reinforce existing competencies or recruit staff with different experience?

For large companies, you may want to concentrate on services their auditors can no longer perform. The middle market may be seeking to outsource some areas that internal staff no longer handle. Nonpublic companies or not-for-profits may need traditional services that larger firms no longer are willing to offer.

It may be a good idea to start small with your own internal pilot program. Choose one type of assignment and the most promising prospect; determine what you'll need to win and service the engagement; and launch a marketing effort. Use what you learn from this attempt to determine your next steps.

Get started with marketing. This may mean simply taking a good prospect—a CFO, board member or larger-firm partner—to lunch and explaining what your firm can do and how your skills can benefit the prospect. Don't forget traditional referral sources such as lawyers, bankers and former staff members, as well as members of boards of directors who in many cases will be taking more active roles in engagement assignments and firm selection. Let them know your firm's strengths.

Close the deal. Build a business case for why a client should work with your firm. Start by determining your unique value proposition, explaining in a sentence or two what your firm can offer to address the prospect's needs and why it is uniquely qualified to help them. Then construct your marketing proposal around that. Here are some important points to make:

- Local firms offer high-quality, well-managed staff as well as active partner or manager involvement in engagements.
- Companies' own accounting staffs may no longer have the time to do the work they once did given the demands of Sarbanes-Oxley and PCAOB requirements. A CPA firm can reduce the burden.
- Small firms that concentrate on accounting, tax and attest services can promise strong focus and expertise in those basic services. If firm members specialize in areas such as business valuation or IT, portray the practice as a boutique operation with hands-on service.
- Using a second CPA firm for a variety of services reassures audit committees, which prefer to see a second professional involved because of the independence it affords.
- Smaller firms offer very competitive billing rates, as well as possible summer work discounts.

Steps to Success

If you research your firm competencies and your market, identify your objectives, launch your marketing effort and close the deal with a strong business case, your firm will be in an excellent position to benefit from the tremendous growth opportunities that the Sarbanes-Oxley requirements present.

—James Metzler

JAMES METZLER, CPA, is AICPA vice-president, small firm interests.

could no longer service due to client size or scale.

"We have hired SOX consultants, internal auditors and IT auditors at all levels—20 people in all," Martin says. "For projects or tax and reporting work, we have added two or three people." Among the firm's successful marketing activities has been networking with partners in Big Four firms, who have proven to be excellent referral sources.

Jim Warmus, CPA, of Averett, Warmus, Durkee, Bauder & Thompson in Orlando, Fla., says clients want staff skilled in internal controls, a collegial working relationship and a reasonable price.

AN EXPERIENCED ADVISER

New clients have engaged Averett, Warmus, Durkee, Bauder & Thompson, a 47-person firm in Orlando, Fla., to help with Sarbanes-Oxley-related second-year testing and plan documentation and to perform internal control testing for companies before the auditors arrive. An airline that realized its own internal audit department might not be up to coping with the act outsourced section 404 documentation and testing to the firm, and an insurance company hired the firm for a documentation engagement. The engagement was set up purely as a consulting project, with the firm following AICPA *Professional Standards* and reporting to the CFO. The firm had previously done consulting work for both clients, but then marketed itself to them for new work with the act in mind.

Alyssa Martin, CPA, of Weaver and Tidwell LLP, says that her Texas firm built a practice billing more than $4 million through internal audit outsourcing, compliance with section 404 and IT auditing.

What have these and other clients been seeking when choosing an advisory firm? Three things, according to the firm's partner Jim Warmus, CPA:

- Skilled staff who understand internal controls and have an audit background.
- The opportunity to work with a firm in a collegial rather than adversarial relationship.
- A reasonable price. The firm charges substantially less than some of the large firms in its area, though Warmus stressed that staff skills were far more important to clients than price.

"We have experienced managers who work directly with the clients on their policies and procedures, their testing plans and whatever they want," Warmus says. "The hard part isn't the technical side, it's having the background you need to understand the big picture. Firms like ours have a large advantage because we have that background."

The firm has added five staff members since July 2004 and is actively seeking more, from the senior to supervisor level. Many other firms are looking for the same people—ones who are seasoned but not too advanced in their careers—but Warmus has had some success targeting large-firm employees and offering them a less frenetic pace. "Below the manager level,

PHOTOGRAPHS: FROM LEFT, KRIS HUNDT/BLACK STAR; TODD ANDERSON/BLACK STAR

we don't ask people to work more than 2,300 hours a year," he says. "We check our hours continuously to make sure people aren't being overworked. We don't want to work them to death. We want them to have a family life."

Jay Moeller, CPA, of Battelle & Battelle LLP, in Dayton, Ohio, says go to lunch with clients and have a nice time, but be sure to tell them what your firm can do and the kind of work you're looking for.

PICKING UP NEW AUDITS

Some firms are doing the same types of engagements they always have, just more of them. DeMeo, Young, McGrath, a 10-accountant firm in Fort Lauderdale, Fla., has seen a surge in audits of publicly traded companies. "A lot of people have gotten out of the business of auditing SEC companies," says partner Roberta Young, CPA. She says her firm's audit practice has doubled in Sarbanes-Oxley's wake, largely due to referrals from small firms that have chosen to shed audits because of their added complexity. Her firm has not needed to add staff to handle this additional work, but has instead been able to hire part-timers when they're required.

To obtain second-firm business, "begin to form alliances with other CPAs and attorneys who are involved in SEC work," Young advises. It helps to be able to demonstrate to referral sources that an alliance is good for both sides. "When other CPAs refer work to me, the referring accountant keeps the tax work, which we don't do. We do only the audits." Most CPAs understand what great referral sources large firms can be, but Young's experience shows that small ones can be an excellent source of new business, too.

WHAT THE BIG FIRMS CAN'T HANDLE

In some cases firms are getting engagements simply because their larger counterparts are overloaded with Sarbanes-Oxley-related assignments. For example, Battelle & Battelle LLP, a 75-member firm in Dayton, Ohio, has grown about 10% in the past year, with about a 30% increase in audits of benefit plans.

Roberta Young, CPA, of DeMeo, Young, McGrath in Fort Lauderdale, Fla., says her firm's audit practice has doubled in Sarbanes-Oxley's wake, largely due to referrals from small firms.

"The national firms are shedding benefit plan audits as well as audits of midsize privately held companies, we assume to work instead on Sarbanes-Oxley-related engagements," says partner Jay Moeller, CPA. Although the firm has not received any direct referrals from large firms, it has gotten work through its contacts with existing clients, bankers, lawyers, insurance companies and benefit plan administrators.

Marketing is handled by a committee of four people, including three partners and the marketing director; other managers and senior accoun-

PHOTOGRAPHS: FROM LEFT, LEN KAUFMAN/BLACK STAR; RICHARD BINSTADT/BLACK STAR

tants contribute, too. The group meets monthly to formulate strategies, including cold-calling and other outreach efforts to inform the firm's traditional manufacturing and distribution clients about its benefit plan capabilities.

"You've got to beat the pavement and not be too proud to ask for work," Moeller says. Most important, given the wide range of opportunities out there and the complexity of some assignments, make sure the potential referral source understands what your firm has to offer. "You can go to lunch and have a nice time, but don't forget to tell them what your firm can do and what kind of work you're looking for."

THE A-LIST

Clearly there are many ongoing practice development opportunities available for firms that understand what they have to offer and how to use their competencies to fill emerging needs. "The largest firms do a great job working with the public issuers," Warmus says. "But they've made those companies their A-list clients, and they may no longer be as interested in the private companies, not-for-profits or governments. But for local firms such as ours, those are the A-list clients."

Clearly, no matter what market constitutes a firm's A-list, there are new chances to expand a practice's horizons in its chosen target area. ■

Get Involved With 360 Degrees of Financial Literacy!

The first step any CPA should take to join the profession's 360 Degrees of Financial Literacy effort is to sign up on the AICPA's Financial Literacy Volunteer Database. Registered CPAs have access to a number of benefits, including invitations to an annual financial literacy teleconference series, timely updates on activities at the state and national level and a monthly e-newsletter. The teleconferences feature speakers from organizations and government agencies with active financial literacy programs and outreach. The e-newsletter helps volunteers learn about helpful resources and tips for volunteering in their own communities and highlights volunteers' inspiring success stories. Register today at **https://volunteers.aicpa.org/financialliteracy**. Volunteer resources, including the CPA mobilization kits, are available at **www.aicpa.org/financialliteracy/index.asp**.

AICPA RESOURCES

The Institute answers individual questions at the Sarbanes-Oxley Act hot line: 866-265-1977, and provides up-to-date compliance information for CPAs at Sarbanes-Oxley Act/PCAOB Implementation Central, **www.aicpa.org/sarbanes/index.asp**.

CPE

■ AICPA's Annual Accounting and Auditing Update Workshop (2005 ed.) (# 736181JA).
■ Annual Update for Accountants and Auditors (2004–2005 ed.) (# 730024JA).
■ Auditing Update: A Review of Recent Activities (2005 ed.) (# 732771JA).
■ Finding the Truth: Effective Techniques for Interview and Communication (# 730164JA).
■ Internal Control and IT: Reliable Reporting and Fraud Prevention (# 732550JA).
■ Internal Control Reporting: A Guide to Effective Documentation (# 732470JA).
■ Internal Control Reporting: A Manager's Guide to Surviving the Audit (# 732490JA).
■ Internal Control Reporting: A Practical Guide to the PCAOB Standard (# 181421JA).

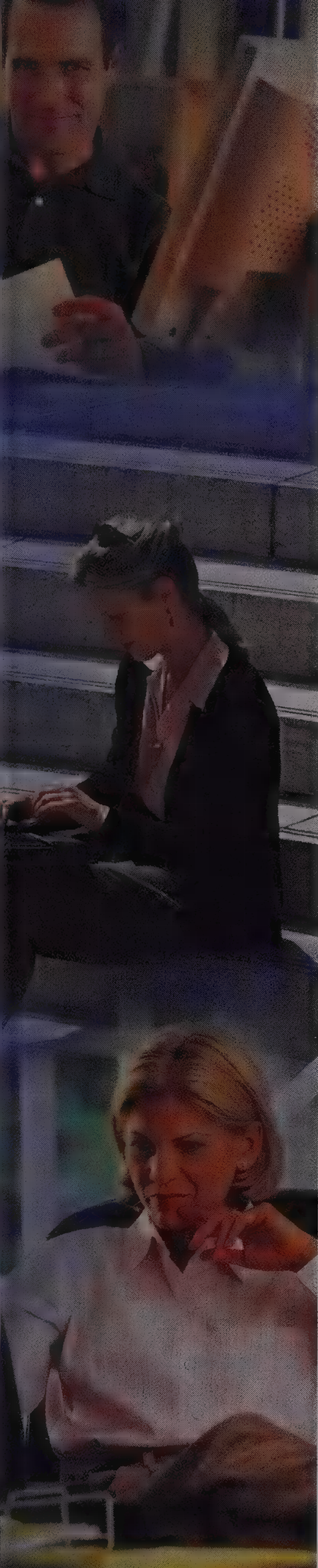
Publications

■ *Consideration of Internal Control in a Financial Statement Audit*, an AICPA Audit and Accounting Guide (# 012451JA).
■ *Consideration of Internal Control in a Financial Statement Audit: An Amendment to SAS No. 55—SAS 78* (# 060671JA).
■ *Financial Reporting Fraud: A Practical Guide to Detection and Internal Control* by Charles R. Lundelius Jr. (# 029879JA).
■ *Guide to Financial Reporting and Analysis*, John Wiley & Sons (# WI354252P0000DJA).

Web sites

■ Center for Public Company Audit Firms, **http://cpcaf.aicpa.org**.
■ CPA Marketing Tool Kit, **www.aicpa.org/cpamarketing**.
■ PCPS Firm Practice Center, **http://pcps.aicpa.org**.

For more information or to place an order, go to **www.cpa2biz.com** or call the AICPA at 888-777-7077.

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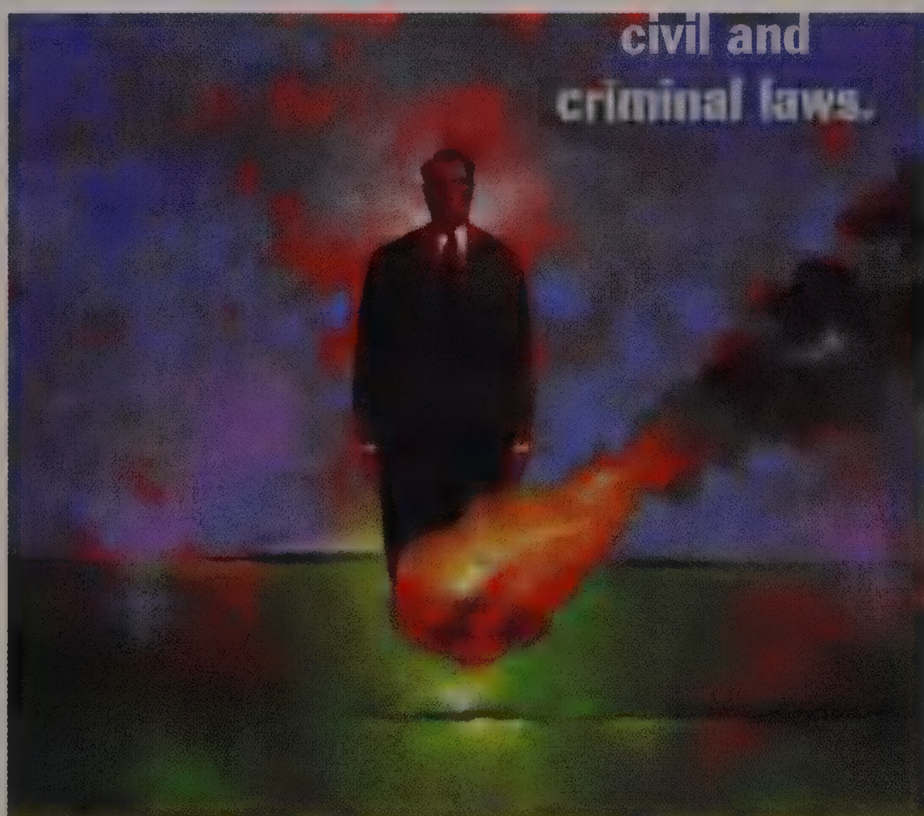
Select your form of business and your associates with care.

Limit Practice Liability

BY SANDRA K. MILLER AND JAMES J. TUCKER III

Since the litigation explosion of the mid-1980s CPA-firm partners have looked for ways to limit personal liability. Firms operating in multiple states have had special concerns, given the geographic, cultural and jurisdictional disparities they must manage. This article will explore some of the litigation risks of operating an accounting practice as a limited liability partnership (LLP) or limited liability company (LLC), clarify LLP and LLC similarities and differences and recommend strategies that help minimize exposure.

Whether a firm is an LLC or LLP, each principal remains liable for individual misconduct under civil and criminal laws.



LIABILITY BY ENTITY

Until 1992 accountants could practice only as sole proprietors or in general partnerships or in professional corporations. Each had drawbacks: Sole owners risked liability for employee violations through the legal doctrine *respondeat superior* (literally "let the master answer"). General partnerships faced unlimited personal liability for partner negligence and partnership debts. Professional corporations offered protection that varied greatly by state and was not available to all multistate practices. S corporations limited the number of shareholders, curtailing growth, and conversion to a corporate form had significant tax consequences.

Those shortcomings, exacerbated by a deluge of litigation, led the AICPA in January 1992 to overwhelmingly approve an amendment to Rule 505, Form of Organization and Name, of its Code of Professional Conduct's Rules of Practice to permit the practice of accountancy in any form permitted by state law or regulation, including the then-emerging LLCs and LLPs.

Although more than a decade has passed since the rule change, there still is confusion about the difference in the scope of liability protection these forms offer. What is certain is that whether a firm is an LLC or LLP, each principal remains liable for individual misconduct under civil and criminal laws, and the veil of limited liability can be pierced in some circumstances. Moreover, the protection limited liability offers differs according to whether the

firm's state provides a "full" or "partial" shield (see "LLP Statutes by State" in the online version of this article at **www.aicpa.org/pubs/jofa/sep2005/miller.htm**).

LLPs: Partial Shield vs. Full Shield

	Partial shield	Full shield
Partner liability for own negligence and malpractice.	Full liability	Full liability
Partner liability for negligence and malpractice in which they are not involved.	No liability	No liability
Partner liability for contracts and normal business debts.	Full liability	No liability

Note: LLP statutes vary by state, so review the laws with care.

THE LLC AND LLP LANDSCAPE

LLC or LLP agreements contain provisions affecting a partner's obligations to the entity or to other partners, and those terms may create liability. While state statutes pertaining to LLCs and LLPs provide a shield against certain civil suits, they may differ significantly, and they don't protect a partner from prosecution for criminal or securities violations. CPAs forming or revising a partnership should develop the firm's governing documents with care and after consultation with legal counsel.

An LLC practice offers a full shield, subject to exceptions. Like a sole practitioner or general partner, each member of an LLC is liable for his or her own acts of negligence and/or civil and criminal violations. LLC statutes generally protect owners from personal liability for the ordinary business debts of the entity, though there are exceptions. Because laws change constantly it's wise to monitor LLC statutes and related state legislation. For example, the Rhode Island General Assembly amended its workers' compensation law to impose personal liability upon corporate officers, LLC managers and members, and partners in general or limited partnerships for knowingly failing to provide workers' compensation insurance.

In exceptional cases courts may hold an individual LLC owner personally liable for LLC debts by piercing the so-called "corporate veil" of limited liability. This may occur when an owner has used the LLC to commit a fraud, has not properly capitalized the LLC or has misled third parties into believing the practice is being conducted by individuals rather than by the LLC. The law is just beginning to develop in this area.

The LLC shield is not a complete bar to personal liability. State laws typically include provisions to recover property that has been fraudulently conveyed to others. Furthermore, the IRS can seek to collect tax from an individual member if there has been a fraudulent transfer or a failure to pay trust fund taxes for which the LLC member is deemed a "responsible person." A plaintiff may use a variety of state statutes to reach the personal assets of the LLC owner (another reason to monitor relevant state laws for changes).

LLP statutes exist in all 50 states, but the protection they afford can vary significantly. In *full-shield* states, a partner is

EXECUTIVE SUMMARY

- **IT HAS BEEN MORE THAN A DECADE** since the AICPA amended Rule 505, Form of Organization and Name, of its Code of Professional Conduct's Rules of Practice to permit the practice of accountancy in LLCs and LLPs, but there still is confusion about the scope of liability protection they offer.

- **WHETHER A CPA PRACTICE** is organized as an LLC or an LLP, each member or partner remains liable for individual misconduct. Many factors affect legal liability exposure including the nature of the business entity, the state in which it has been formed, the precise terms of the LLP or LLC agreement and a broad range of federal and state laws.

- **LAWS PERTAINING TO LLCs AND LLPs** are determined by each state and may differ significantly. LLC and LLP statutes may provide a shield of protection from certain civil suits but do not provide protection from criminal or securities violations.

- **THE SCOPE OF LIABILITY PROTECTION** an LLP offers may differ depending on whether it is formed in a state with "full" or "partial" shields.

- **COURTS MAY HOLD AN OWNER PERSONALLY LIABLE** for wrongdoing if he or she has used the LLC to commit a fraud, has not properly capitalized the LLC or has misled third parties into believing the practice is being conducted by individuals rather than by the LLC.

- **WHEN FORMING OR REVISING** a professional entity, CPAs should exercise care about the partners they select and the contractual authority they give each person. They should review the governing statutes—and consult an experienced attorney.

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generally liable for his or her own malpractice and misconduct but not for malpractice committed by other members of the LLP when he or she is not involved. Partners are not liable for other types of liabilities, including ordinary business debts of the partnership. Thus, the full-shield LLP offers much the same liability protection as the LLC. Generalizations, however, can be misleading. The precise wording and scope of the liability shield contained in each LLC or LLP statute may differ. Always review statutes carefully, along with any LLC or LLP agreements in effect (see "Using LexisNexis to Find the Latest State Statutes," at right).

In *partial-shield* states, a partner usually is liable for his or her own malpractice and misconduct but not for that committed by other members of the LLP when he or she is not involved. However, in general, partners are liable for the ordinary business debts of the partnership. There is significant variation in the wording of state statutes as noted above.

Here's an example that compares partial-shield vs. full-shield liability: ABC Limited Liability Partnership (LLP) is a CPA firm with three partners: A, B and C. Partner A is found guilty of malpractice in which partners B and C are not involved. ABC LLP is liable for a malpractice claim of $10 million. The firm has assets and insurance coverage totaling $6 million. Soon after the malpractice judgment, the partnership ceases operations, owing $250,000 to its leaseholder.

Full-shield results: The plaintiff in the malpractice judgment can sue and seek damages from partnership assets and the personal assets of partner A; partners B and C are not personally liable. Since a full shield eliminates personal liability of the partners for contractual obligations and normal business debts, the lessor may seek damages only from partnership assets but not from the personal assets of partners A, B and C.

Partial-shield results: The plaintiff in the malpractice judgment can sue and seek damages from partnership assets and the personal assets of partner A. Since partners B and C were not involved, they are not personally liable. But because a partial shield does not eliminate personal liability for contractual obligations and normal business debts, all three partners are potentially personally liable for the $250,000 owed to the leaseholder.

Using LexisNexis to Find the Latest State Statutes

- Log onto LexisNexis (**www.lexisnexis.com**).
- Click on **Legal Research** under **Academic Search Forms** on the left-hand side of the page.
- Click on **State Codes** under **Codes & Regulations**.
- Choose the state you're looking for (Alabama, for example).
- Type Limited Liability Partnerships in the **Keyword:** box.
- Type Partner's Liability in the Narrow Search in the **additional terms:** box.
- Click on **Search**.
- Select the corresponding state code from the list.

Monitor each state's laws closely for changes and their effective dates. Many LLP shields have moved from less-than-full- to full-shield status. The wording of partial-shield statutes varies, too. To access a state statute using a search engine such as Google, enter the state name followed by statute. Many secretary of state agencies provide helpful Web sites, too, as do law schools such as **www.law.cornell.edu**.

CONTROL YOUR EXPOSURE

There are several basic precautions you can take to minimize your legal liability:

■ ***Select your associates and business entity carefully.*** Each partner and/or member may have authority under the relevant agreement and state law to legally bind the LLP or LLC, so get to know your potential partners well.

■ ***Consult an attorney when deciding which business form to choose.*** Usually LLCs and full-shield LLPs provide the most protection. Multistate practitioners may wish to ask their attorneys for an update on relevant statutory and case law that answers the question of which state's LLP shield would apply if the firm were to organize in one state and conduct business in others.

■ ***Consider internal controls to reduce the risk of unauthorized transactions.*** Every firm should develop a system of controls that ensures owners and employees will not engage in conduct beyond the scope of their intended authority. State agency laws tend to protect third parties in their dealings with an entity, and a firm could be legally bound in certain circumstances if a partner appears to have the authority to consummate a transaction.

■ ***Carefully review employment practices.*** LLPs and their individual partners have been sued for violations of Title VII of the Civil Rights Act of 1964. For example, in *Middlemist* v. *BDO Seidman*, 958 P2d 486 (Colo. Ct. App. 1997), the plaintiff sued both the LLP and—because the CPA had been fired—the partner who had been her immediate supervisor. The Colorado Appellate Court ruled in favor of the defendant accounting partner and held that a Title VII violation must be brought against the employer—that is, the LLP firm—rather than the individual partner. However, the court acknowledged that certain types of claims, such as an assertion of assault and battery or a negligent or intentional infliction of mental distress, conceivably could be filed against the individual.

■ ***Satisfy registration, tax, insurance and other requirements.*** A shield is in force only if the firm is properly registered with the state as an LLP or LLC. Review all filing requirements annually. Check that the entity is properly registered and has met all relevant insurance and other requirements. Update the business registration and insurance as needed, especially if there has been an exceptional event such as a merger.

(continued on page 74)

■ ***Manage liability exposure resulting from firm reorganization.*** Accounting partnerships are frequently expanded, merged or reorganized. For a succession plan, fully examine the legal exposure and tax implications of a restructuring for each partner. Complicated tax situations can ensue even when expanding an LLC from one member to two. Examine the federal and state tax consequences of any restructuring with care.

■ ***Accurately represent the firm's name and designation as an LLP or LLC.*** You must use the proper firm name and designation (LLP or LLC) *at all times* to achieve the limited liability shield. Precise wording in billing, engagement letters and even internal files have an impact upon the legal liability of the firm and its partners.

In the case of *Water, Waste, & Land* v. *Lanham*, 955 P2d 997 (Colo. 1998), the plaintiff, a development and engineering firm that had performed work for an LLC, successfully sued one of the owners in his individual capacity. Water, Waste & Land had performed work for the LLC, which was owned by two members, Lanham and Clark. When arranging to have work done, Clark failed to properly fill out a contract and verbally authorized the plaintiff to do the work. Clark gave the plaintiff a business card that showed the initials of the business name but did not include the letters *LLC*. The business card included the LLC's address, which happened to be the same as Lanham's personal address. The Colorado Supreme Court ruled that Clark had acted as an agent of Lanham and ultimately held both Lanham and the LLC liable for the bill.

The case underscores the risk of personal liability even when business owners have formed an LLC. It also shows the importance of using the *LLC* on all firm documents and completing contracts properly. The decision illustrates the courts' inclination to protect third parties in their dealings with agents of a business.

■ ***Consider the implications of employee supervision.*** Under some circumstances partners can be held liable for the wrongdoing of those they supervise, so a firm choosing to operate as an LLP may wish to form the LLP in a full-shield state. State shields' variations in protection make it particularly important to get the input of legal counsel when organizing a multistate practice. Whether your firm decides to be an LLP or LLC, it should be extremely cautious regarding which partner or partners you choose to have supervise employees. The structure of the firm should take into consideration the liability implications of employee supervision.

■ ***Exercise care in constructing all employment policies.*** Consult an attorney in advance of major employment decisions and develop the necessary factual support to defend against potential lawsuits. Implementing and enforcing a sound employment policy is the best defense to employment-related legal liability, as illustrated by the 1998 case of *Faragher* v. *City of Boca Raton*, 524 US 775 (1998). Here, an employer was allowed to raise a defense to a charge of sexual harassment by having and enforcing a sound sexual harassment policy.

■ ***Consider the consequences of a partner dispute or the departure of one or more partners.*** It is not surprising that many firms dissolve under the pressures of professional practice. Practitioners should consider including provisions in the LLP agreement that address the consequences should a partner decide to leave the firm for any reason.

PRACTICAL TIPS

To control liability,

- **Consult legal counsel and carefully review all relevant governing LLP or LLC agreements.**
- **Properly register your firm as an LLP or LLC and correctly represent the firm's name to the public.**
- **Analyze the tax implications when forming, reorganizing, dissolving or otherwise altering the business.**

AICPA RESOURCES

Conference

National Conference on Fraud and Advanced Litigation Services
September 29–30, 2005
The Fairmont Dallas
Dallas

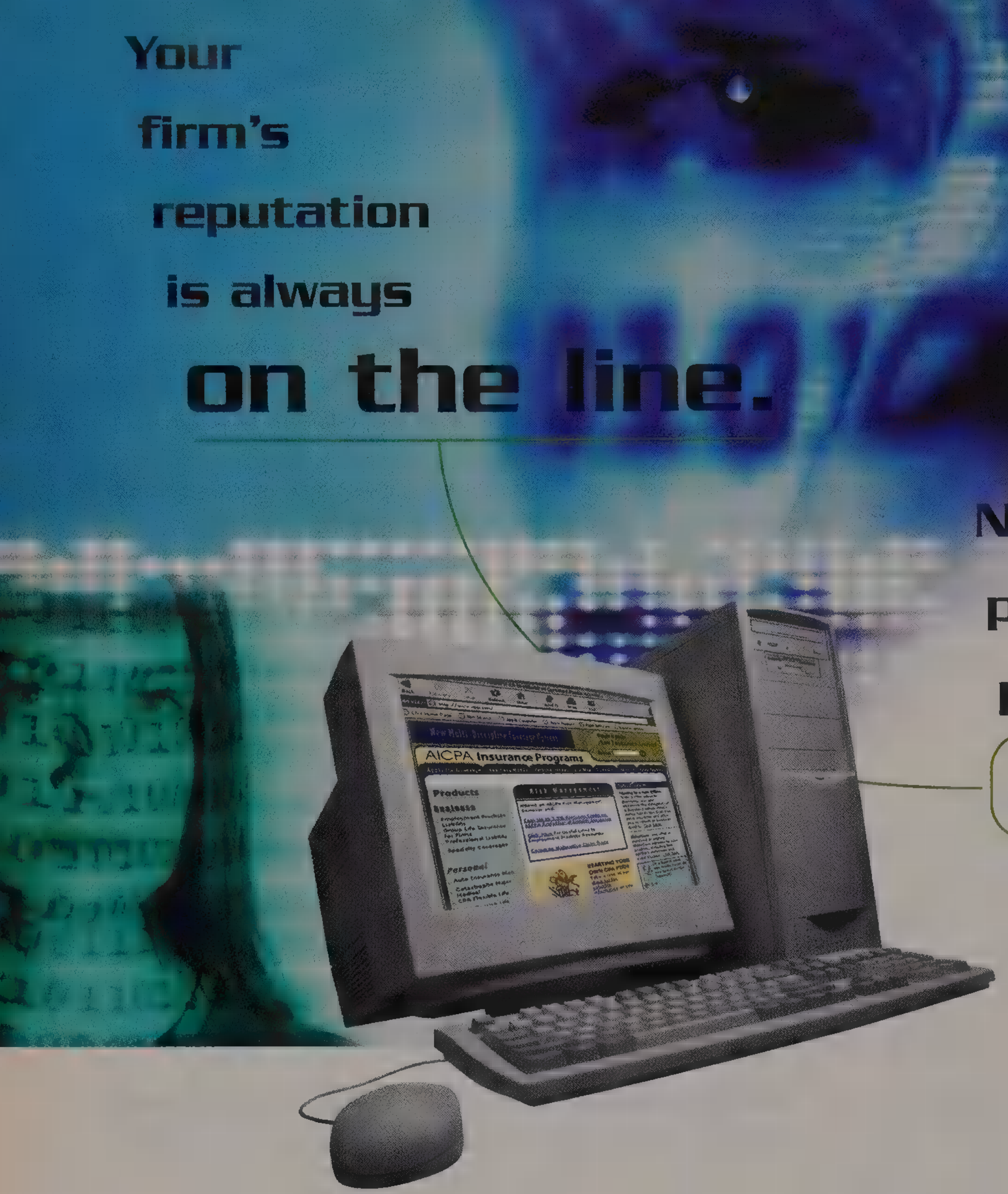
Publications

■ *Litigation Services Handbook: The Role of the Financial Expert* by Roman L. Weil, Michael J. Wagner and Peter B. Frank, John Wiley & Sons (# WI403091P0100DJA).
■ *Management of an Accounting Practice Handbook*, looseleaf version (# 090407JA); *e-MAP*, online subscription (# MAP-XXJA).
■ Practice Bulletin no. 14, *Accounting and Reporting by Limited Liability Companies and Limited Liability Partnerships*, AICPA (# 033160JA).

For more information, to place an order or to register, go to **www.cpa2biz.com** or call the AICPA at 888-777-7077.

WRAP-UP

Regardless of whether an accounting practice is organized as an LLC or an LLP, each member or partner remains liable under civil and criminal laws for individual misconduct. A variety of factors affect legal liability exposure: the nature of the business entity selected, the state in which the entity has been formed and the precise terms of the agreement. A broad range of federal laws and state laws also affects it. It is advisable to consult legal and tax counsel *before* rather than *after* major transactions. Be sure to stay current, comply with all relevant laws and methodically review the firm's practices and legal documents to ensure all legal matters are properly addressed. ■



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There's more to Sarbanes-Oxley compliance than meets the eye.

The Value Proposition

BY CYNTHIA HARRINGTON

For most large companies, the setup work to comply with the Sarbanes-Oxley Act is history. While no one says the process was easy or cheap, some companies are seeing added benefits from the enormous compliance effort. For them, Sarbanes-Oxley improved decision making, provided process efficiencies and instilled greater confidence in financial reporting. While these benefits balance some of the costs, they remain difficult to quantify.

With studies showing that well-governed companies pay off handsomely for shareholders, CPAs can help their employers benefit from the lessons learned by companies that approached Sarbanes-Oxley compliance as a stepping-stone to more comprehensive improvements. These entities upgraded technology and business processes and took the opportunity to change how the company functioned; new methods of doing business frequently result in cost savings. While management and audit executives' crystal balls don't yet clearly show that the cost savings balance the full cost of compliance, the excitement around possibilities for the future is palpable.

AUDIT COMMITTEE CONFIDENCE

As the surveys accumulated by Institutional Shareholder Services show (see "Sarbanes-Oxley Payback," page 78), many managers and directors see Sarbanes-Oxley as a positive experience. The company-wide review of processes and the required documentation increased internal transparency and provided a common language for employees in diverse departments and functions. CPAs looking to add value to the extra hours of work should help their companies realize the benefits of formalizing process documentation. Companies can find additional uses for Sarbanes-Oxley documentation as a tool for audit committees, a way to enhance employee decisions based on cross-function process information and a means of increasing efficiencies by eliminating duplicate controls.

As did the majority of respondents in the surveys, the board of Little Rock, Ark.-based Alltel Corp. found Sarbanes-Oxley created useful tools. Alltell documented 100 company processes within the scope of the act. Brandi

Alltel Corp.'s vice-president of internal audit Brandi Joplin found consistent process documentation of internal controls within the scope of Sarbanes-Oxley created even greater value for the company.

Joplin, CPA, vice-president of internal audit, led the team that mapped out the key areas in each process such as purchasing or payables. "We were early COSO adopters in 1992 and always believed we had strong internal controls," Joplin says. "But we found consistent process documentation of the controls across the entire company created even greater value."

CPAs and internal auditors who now report directly to the board of directors audit committee can use the section 404 documentation as a basis for discussion. Alltel's internal audit team reports to the company's audit committee. Its process documentation includes six flowcharts per process, supported by memos and narratives. The audit committee can use this information to support its decisions. "It can look across business cycles and drill down into various processes," Joplin says. "Committee members now have insight into what's really going on and the information they need to ask very specific questions."

Similarly the audit committee at global energy company USEC Inc. focuses on the broader goal of good corporate governance resulting from Sarbanes-Oxley compliance. From the beginning USEC internal audit and senior management focused beyond compliance to the value proposition Sarbanes-Oxley represented. CPAs can follow USEC's five-step process in exhibit 1, page 79.

According to Barry Mumford, CPA, CMA, director of auditing for USEC in Bethesda, Md., while section 404 compliance means financial reporting should be more reliable, the broader definition of "internal control" includes two other elements: the effectiveness and efficiency of operations, and compliance with applicable laws and regulations. Together they make up the full value proposition. "Many companies are focused on reliable financial reporting," he says, "but in our opinion addressing only one of the three elements leaves most of the value on the table."

Sarbanes-Oxley Payback

Costs are high:

- When final numbers are in, the costs of first-year section 404 compliance could exceed $4.6 million for each of the largest U.S. companies.
- The average cost of being a public company with revenue under $1 billion rose $1.6 million, or 130%, since the Sarbanes-Oxley era began.

But value is there:

- More than 60% of 153 directors surveyed said Sarbanes-Oxley had been positive for their companies; nearly 70% saw it as positive for their boards.
- Nearly 70% of directors said recent governance reforms had improved board governance "a lot" (28%) or "moderately" (41%).
- Some 64% of CFOs and managing directors at U.S. companies saw Sarbanes-Oxley as part of a larger corporate governance initiative.

Source: "Second Anniversary: The Impact of Sarbanes-Oxley," Institutional Shareholder Services, **www.issproxy.com**.

EXECUTIVE SUMMARY

- **CPAs CAN HELP COMPANIES USE SARBANES-OXLEY** compliance as a stepping-stone to improved decision making, more efficient processes and greater confidence in financial reporting. Some of these improvements may help companies offset the high cost of complying with the act.

- **PROCESS DOCUMENTATION CAN HELP AUDIT** committees better understand the activities under their control and enhance their decision making by enabling them to drill down further into various processes.

- **A CLOSE EXAMINATION OF CONTROL PROCESSES** enables companies to improve them and eliminate duplication. Documenting standardized procedures forces managers to think carefully before they deviate from the process, minimizing a company's exposure to risk.

- **NOT EVERY COMPANY SEES VALUE-ADDED BENEFITS** from Sarbanes-Oxley compliance. Some well-run companies found only minor gaps they were able to address easily. Many high-profile scandals occurred not because of an absence of controls but because management overrode the controls that were in place.

- **AS SARBANES-OXLEY CREATES BETTER-GOVERNED** companies, studies show investors are willing to pay a premium for companies with independent boards, transparent processes and clear financial disclosures. Better corporate governance also is translating into higher credit ratings and thus lower interest costs, which boost profits.

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EMPOWERING EMPLOYEES

Sarbanes-Oxley compliance creates value for a broad base of stakeholders. Audit committees clearly will find the documented processes helpful in making sound business decisions. However many companies feel the compliance process has helped to streamline communication for decision making at many other levels.

CPAs should focus their company's attention on the value of companywide participation in instituting and documenting the required controls. Joplin reports that with the 100 company processes within the scope of Sarbanes-Oxley, Alltel "focused on the handoffs between functions, each of which makes sure that when their flowchart stops, the next one picks up. This takes us way beyond the silo look at processes."

Alltel created the flowcharts in the third phase of its Sarbanes-Oxley compliance. The company had started im-

mediately on the compliance process in 2002; in 2003 it enhanced and added more processes and tweaked procedures. In 2004 it added flowcharts and narratives to the documentation. "We averaged 6 to 10 flowcharts with each process. Each box has an accompanying narrative that tells what's going on within the process," Joplin says. "Now anybody anywhere in the organization can pick up the documentation and see key areas in a flash."

The result is that employees across functions now speak the same language. When issues arise in meetings, the first question addressed is what risk the process is trying to control. "It's impossible to put a price on the value of what we've gained in terms of consistent process documentation, or the common language of assessing risk and controls," Joplin says. "I can see our personnel have incorporated the assessment process into their day-to-day decision making."

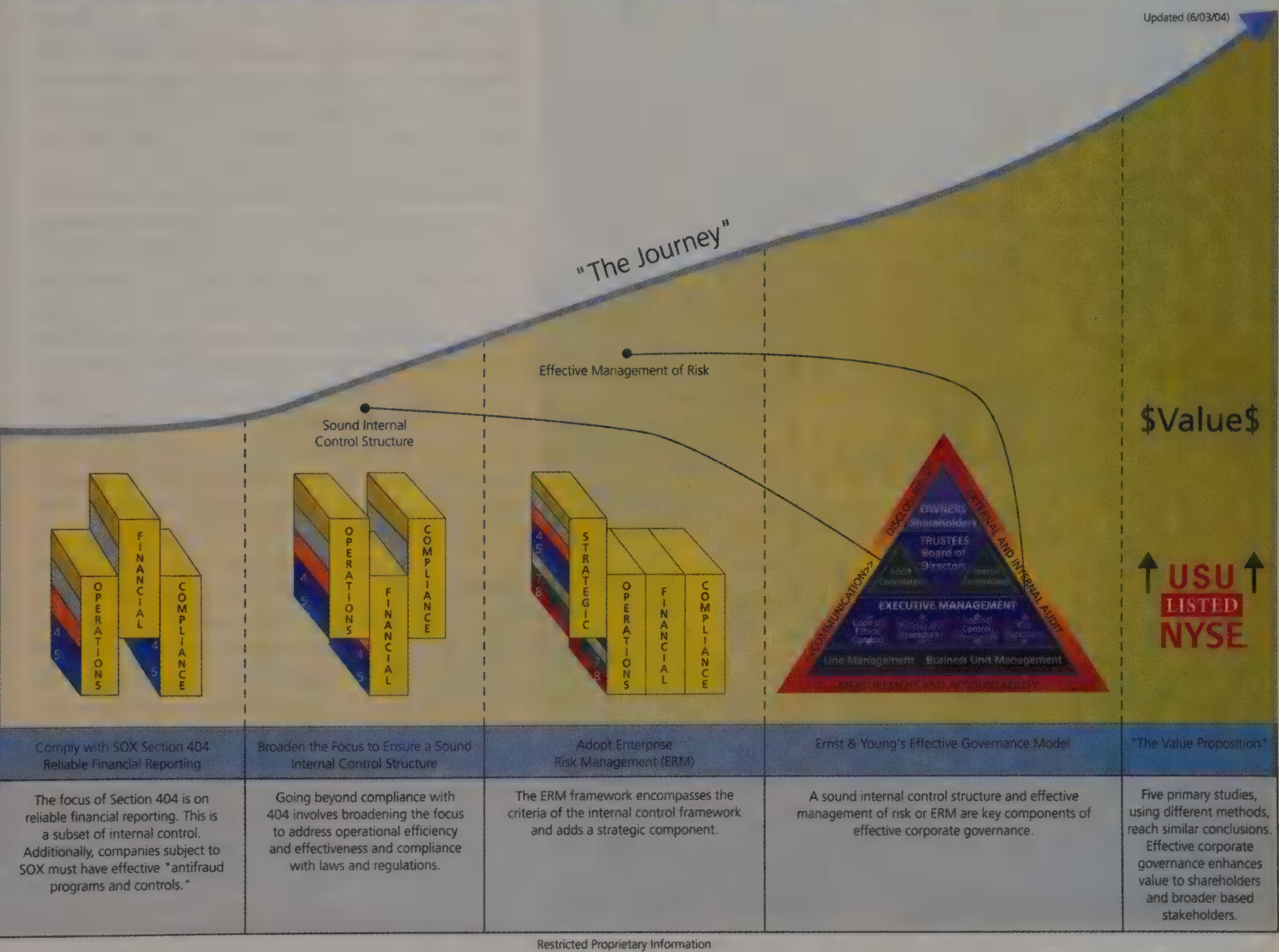
Standardized controls and procedures force managers to think carefully about deviating from the process. For instance, customizing a billing format for one customer needs to be justified by better pricing, a quicker cash flow cycle or greater market share. "Companies are realizing they better have a good business reason for deviating from a standard," says Richard Roth, CPA, chief research officer of the Hackett Group in Atlanta. "In today's environment that deviation adds both cost and risk."

MORE EFFICIENT PROCESSES

Assessing each process during compliance forced companies to consider how and why they were doing things. Sometimes the choice was to change processes; other times companies eliminated duplication. "Sarbanes-Oxley compliance activities caused board and senior-level executives to think about how their companies were organized," Roth says. "Some decided they weren't a portfolio of companies but an integrated business and others chose the opposite scenario."

CPAs will find that clarifying the business model can influence bottom-line results as well as produce less tangi-

Exhibit 1: Beyond Compliance With Section 404—The Value Proposition



Source: Ernst & Young, COSO, USEC, 2004.

ble benefits. Roth gives the example of one client that had six production divisions and three reporting lines. One issue the company looked at was the complexity of the CFO's reporting to one boss for functional matters, to another as the head of each product division and to a third based on geography. The section 404 documentation process forced the board and senior-level executives to decide whether they wanted an integrated business or a segmented portfolio of companies. "The company wanted to balance closeness with its customers with the desire to have an efficient business model for maximum leverage," he says. Ultimately they decided to streamline reporting according to customer lines.

PRACTICAL TIPS

- **Use Sarbanes-Oxley compliance documentation to develop tools the audit committee can use to make decisions and better understand control processes.**
- **Use the results of the Sarbanes-Oxley compliance process to initiate a discussion of controls that can be eliminated or streamlined because of unnecessary duplication.**
- **Use process mapping and other compliance activities to help the company better meet other laws and regulations it must follow.**

Another area of possible streamlined company activities is eliminating control points that duplicate efforts. CPAs can lead the discussion of organizational alignment as part of the greater good of Sarbanes-Oxley compliance. Process or control duplication is particularly common among companies that grew by acquisition, or that automated systems without revising manual processes. Procedures still might call for verification of a paper document that no longer exists because the process is fully automated. "Some companies are finding a plethora of control points they no longer need," says Roth.

Barry Mumford, director of auditing for USEC, says in addition to focusing on financial reporting, companies should examine the effectiveness of operations and compliance with applicable laws and regulations.

The Hackett Group's 2004 *Finance Book of Numbers* shows that more than two-thirds of companies were confident with their financial forecasting and reporting outputs. Only 9% had made the same claim a year before. "We have clients that had internal control built into their processes all along," says Roth, "but that was only 10% to 15% of all companies."

There are some contrary views about the benefits of Sarbanes-Oxley compliance, however. Richard Piluso, CPA, vice-president of internal audit for Loews Corp. in New York City, says he personally does not think compliance can be linked to any improved financial performance. Loews is a holding company of diverse interests, including CNA Insurance and the Loews Hotels. "We put a lot of hours into compliance and spent a lot of money," he says. "Out of the thousands of controls we reviewed, we found some minor gaps that were readily addressed."

The 25-some people in the financial department of the company's home office handle matters at the holding-company level, but each subsidiary is an independent cost center. Five of the companies are publicly traded and have individual Sarbanes-Oxley accountability. "The vast majority of *Fortune* 1000 companies already had top-notch financial departments and a control environment in place," says Piluso. "The fallacy of Sarbanes-Oxley is that in most of the high-profile SEC investigations, management simply overrode the controls."

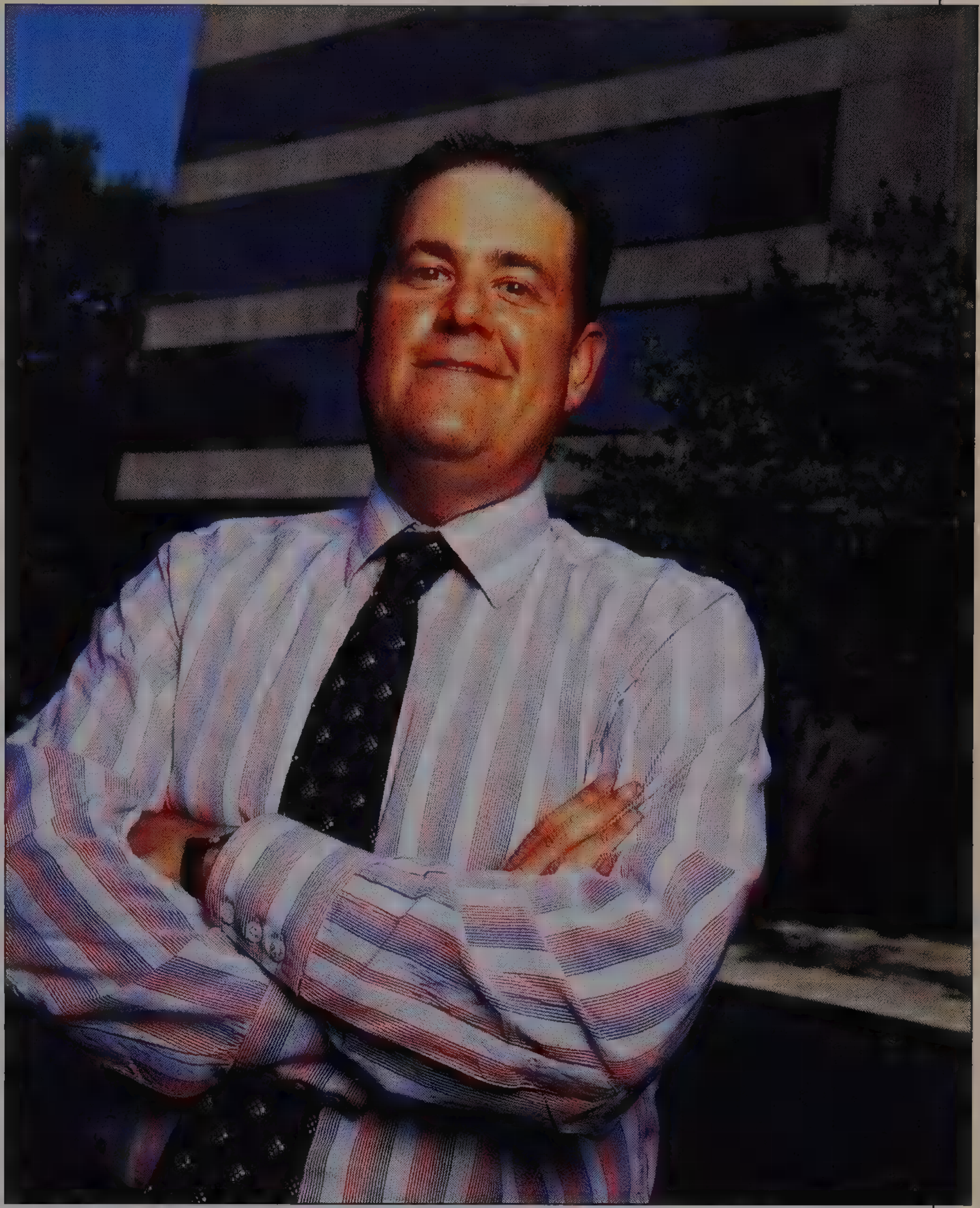
THE GOOD GOVERNANCE PREMIUM

The real intent of Sarbanes-Oxley is to create better-governed public companies. Effective

corporate governance creates real value for shareholders. Studies show investors are willing to pay a premium for companies with independent boards, transparent processes and clear financial disclosures.

Shareholders will find further benefits in increased profitability. Rating agencies' reports are beginning to look more like corporate governance report cards. The resulting higher credit ratings mean lower interest costs. One 2004 study, "The Effects of Corporate Governance on Firms' Credit Ratings" by the Social Science Research Network, found credit ratings were positively related to the degree of financial transparency. Companies received higher credit ratings when they followed practices related to good governance, such as weaker shareholder rights in terms of takeover defense, board independence and a high level of board expertise. Conversely, low credit scores were linked to companies with bad governance conditions such as a CEO with too many close relationships to board members.

CPAs will find unexpected benefits in sharing the Sarbanes-Oxley infrastructure with other departments. The process of mapping and aligning risk, instituting controls to ensure compliance with regulations and then documenting the processes can be applied to compliance with diverse regulations such as labor and employment regulations or environmental protections. USEC, for example, must comply with these regulations, as well as with the rules of the Nuclear Regulatory Agency. "Additional departments here are beginning to apply the Sarbanes-Oxley infrastructure to ensure compliance with other laws and regulations," says Mumford.



Richard Roth, CPA, chief research officer of the Hackett Group, says Sarbanes-Oxley compliance is helping some companies eliminate controls they no longer need.

It's a fact that companies that want to continue trading on the public stock exchanges can't get away from the new regulations. Like many auditors and finance professionals, Brandi Joplin goes beyond the necessary to look for overriding benefits. (See exhibit 2, at right, for Joplin's checklist of benefits.) "Sarbanes-Oxley compliance is a lot of work. There's no way to get around it, and it costs money," she says, "but there are counterbalancing benefits when companies focus on the value in the process."

THE BENEFITS SHOW

The attitude of many CPAs toward Sarbanes-Oxley compliance sounds much like the old saw, "If you can't beat 'em, join 'em." Once they are through with the mountain of work involved with initial compliance, the benefits of improved decision making, more efficient processes and cross-departmental applications inherent in the Sarbanes-Oxley infrastructure might begin to show through for a broader range of U.S. companies.

CPAs can use the documentation to provide audit committees with more detailed information, to empower all employees to consider cross-functional processes and to lead the entire company in using section-404-type documentation. Since there is no way to avoid the cost, companies might just as well find ways to spread the expenditures over this greater array of benefits. ■

Exhibit 2: Benefits Checklist

- ✓ Show audit committees the value of process transparency.
- ✓ Use Sarbanes-Oxley documentation to improve employee decision making.
- ✓ Eliminate duplicate controls.
- ✓ Note increased confidence in financial reports.
- ✓ Streamline processes through conscious examination.
- ✓ Track good governance premiums—higher share price and higher credit ratings.

Leaving America with dignity.

New Rules for Expats

BY DAVID A. LIFSON AND PETER E. BENTLEY

Congress has debated the merits of various tax measures for expatriates for more than 20 years. The most straightforward approach is an exit tax on all untaxed asset appreciation on departure. Fortunately, this complex tax policy has been constrained by civil rights concerns of those who view exit taxes as inappropriate barriers to free population movement, historically used by totalitarian-style regimes to detain their oppressed inhabitants. In spite of this controversy, several enlightened governments, notably Canada and Australia, have recently adopted this approach, with mixed results. The United States uses another approach...for now.

The world is going global, and the U.S. tax system is keeping up with the times. The American Jobs Creation Act of 2004 (the "Jobs Act") established special rules for individuals emigrating from the United States, including all traditional expatriates—people giving up citizenship—and even certain aliens relinquishing permanent residency. They subject the wealthy to at least 10 years of stricter reporting, and monitor and tax certain postdeparture income. The less-wealthy are allowed to leave with minimal fuss, but must report their departure to claim U.S. tax freedom.

The U.S. tax system is unique in its global approach to taxation. U.S. citizens always are required to pay income tax on their worldwide income from all sources, subject to various credits, exemptions and exceptions, and any gifts they make or estates they leave are generally subject to U.S. transfer taxes.

Emigration on the Rise

Recent census data show traditional emigration is trending upward, to about 300,000 Americans a year.

PHOTOGRAPH BY PHIL BOORMAN/GETTY IMAGES

Enhanced disclosure requirements, an intent-driven tax regime and the inclusion of long-term residents in the antiavoidance regime tightened these rules in 1996. The chink in the armor in the 1996 revisions was the focus on the taxpayer's intent to trigger the full antiavoidance tax system. Determining intent has proven nearly as costly and elusive as the daunting task of determining the fair value of unsold assets at departure.

NEW LEGISLATION, NEW RULES

The new rules apply to all departing expatriates retroactively from June 3, 2004. In addition to the 10-year postexpatriation self-assessment and reporting system, the net-worth threshold also has been increased, exempting more of the "less-than-wealthy" from continuing tax payment and return filing obligations. This will allow those individuals to move freely with no special postdeparture U.S. taxes or reporting responsibilities after an initial filing. Expensive and time-consuming letter ruling requests no longer are required. When citizens (or long-term residents) move to locations where there is a U.S. tax treaty, those provisions also must be considered in determining the individual's U.S. tax reporting obligations.

An expatriate continues to be a U.S. resident for tax purposes, and liable for U.S. tax on worldwide income, until the formal acts of expatriation and associated reporting are complete. Under the new law, all citizens and long-term residents remain U.S. residents until the later of the day they perform an expatriating act (give up citizenship or green card status) or file an information return with the IRS documenting their expatriation and financial status.

FITTING INTO THE TAX SYSTEM

The United States taxes noncitizens ("aliens") based on their U.S. activities. If an alien's presence in the United States is casual, only U.S. source income is taxable and transfer taxes (on estates and gifts) apply only to specific classes of U.S. assets. The tax profile of aliens changes significantly when they become U.S. residents. For income tax purposes, this is objectively based on immigration status (the green card test for those that obtain lawful *permanent* residence) or physical presence (the substantial presence test). For estate and gift tax purposes, residence is based on domicile. An alien who becomes a resident is subject to the same income tax rules as any U.S. citizen.

Most resident aliens can change their residence status freely, leaving the United States at will, with few U.S. tax repercussions. However, resident aliens who hold green cards for 8 of the 15 prior years generally are taxed at departure identically to citizens who relinquish their citizenship. These departing long-term green card holders, and citizens relinquishing their citizenship, are described collectively in the tax rules as "expatriating individuals." CPAs will want to obtain detailed calendars and client case histories for at least five years, and in some cases 15 or more years, when evaluating the potential consequences of expatriation.

Using 2005 thresholds, expatriating individuals (a) who have been tax-compliant for at least five previous years and attest to such fact, (b) whose net worth is less than $2 million dollars and (c) who have paid federal income tax (indexed annually) of less than an average of $124,001 (about $400,000 of adjusted gross income for an average taxpayer) for the five years prior to expatriation are exempt from the

U.S. Source of Income—General Rules

Nonresident aliens (NRAs) must pay U.S. income tax on

- Income connected with a U.S. trade or business.
- Most income from personal services provided in the United States.
- Passive income derived in the United States (portfolio interest excluded).
- Gain on sale of personal property when the NRA is physically present in the United States on the date of sale.
- Gain on sale of real property located in the United States.

The new rules state that expatriating individuals also must pay U.S. income tax for the next 10 years on

- Dividends paid by controlled foreign corporations (CFCs).
- Gain on sale of personal property located in the United States.
- Gain on sale of stock of U.S. corporations, CFCs and debt issued by U.S. persons.

For estate and gift tax purposes, NRAs must pay U.S. taxes on the transfer of

- All real and personal property situated in the United States.
- All U.S.-held debt except registered (portfolio) debt.
- U.S. cash held physically or in U.S. brokerage accounts.
- Foreign corporate stock where the corporation owns U.S. real property.

Expatriates also must pay U.S. estate and gift tax for 10 years on foreign corporate stock where the foreign corporation owns U.S. personal property.

alternative tax regime. That means they are exempt from the enhanced U.S. source rules, the 10-year requirement and most of the restrictions on return visits to the United States that lead to tax "as if a resident" postexpatriation. To obtain the exemption, they must file form 8854 with the IRS to document the expatriation and provide information about their recent tax history, income and assets.

Caution: A termination of U.S. residency during the calendar year requires maintenance of a "closer connection" to another country based on general U.S. tax law or a particular U.S. tax treaty with that foreign country, or absence from the United States for all but 30 days in the postexpatriation calendar year and no reentry as a U.S. resident for three tax years postexpatriation.

Certain expatriating individuals are exempt: dual citizens and minors. These exemptions are very narrowly defined, but will be useful to those who are U.S. citizens through an "accident of birth" but have no significant U.S. connections. Provided they follow the required filing and other formalities in relinquishing citizenship, regardless of their financial circumstances, they are permitted to expatriate without the complications described below. A strict rule for these two categories of expatriates is that they may not have been in the United States for more than 30 days in any year during the 10-year period *prior* to expatriation. Additionally, "dual citizens" must never have been resident based on physical presence and never held a U.S. passport. Minors relinquishing citizenship may not have had U.S. citizen parents at birth and must expatriate prior to turning 18½.

WEALTHY EXPATRIATES

Wealthy expatriating individuals are subject to taxation of U.S. source income under the "alternative tax regime" that modifies the traditional rules for U.S. income, gift and estate taxation of aliens. They must file form 8854 to start the expatriation process, and annually for 10 years after their departure to document their status. They also may become subject to tax as resident aliens on their worldwide income if they spend any significant time in the United States—more than 30 days per year in most cases and another 30 days on qualified business trips—in any of the 10 tax years postdeparture. If any tax is due in a postdeparture year, they also must file form 1040 or 1040NR to report income and calculate the tax.

Wealthy expatriating individuals are subject to taxation of U.S. source income under the "alternative tax regime" that modifies the traditional rules for U.S. income, gift and estate taxation of aliens.

Note: A careful projection of an individual's travel and lifestyle plans and alternatives is required to evaluate the tax risks of expatriation. CPAs should document client expectations to help monitor their actual activities and advise them during the sensitive 10-year postdeparture window.

To terminate their responsibilities to pay U.S. tax on worldwide income and to set the clock running on the 10-year period, wealthy expatriates must demonstrate they have been tax-compliant for at least five previous years and file an information disclosure statement with the IRS, describing their act of expatriation and providing financial information. They then become subject to the

EXECUTIVE SUMMARY

- **EXPATRIATES GIVING UP U.S. CITIZENSHIP,** or terminating green card status held for 8 of 15 prior years, are subject to new tax rules. Expatriations generally start after a passport or green card is surrendered and a form 8854 is filed to report the event.

- **SIMPLE EXPATRIATION FOR NONWEALTHY INDIVIDUALS** requires the one-time filing of form 8854 to declare that five-year average federal income tax was less than $124,001 (for 2005, indexed) and net worth was under $2 million at departure.

- **ALL OTHER INDIVIDUALS ARE "WEALTHY" AND** must file form 8854 on departure and generally annually for 10 calendar years postdeparture.

- **FOR 10 POSTDEPARTURE YEARS, "WEALTHY"** expatriates must follow special enhanced U.S. sourcing rules for profits on U.S. source gains as well as certain gifts and estates. Tax returns must be filed annually.

- **TRAVEL TO THE UNITED STATES FOR MORE THAN 30 DAYS** (plus an additional 30 days on qualified business trips) could subject an expatriate to tax on worldwide income "as if a resident" for that year.

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postexpatriation alternative tax regime for 10 calendar years.

In summary, the alternate tax regime

- Subjects the expatriate to enhanced U.S. sourcing rules so that certain foreign transactions with U.S. connections are taxable as U.S. income.
- Requires annual filings for 10 years post-expatriation.
- Imposes expanded estate and gift tax obligations.

The wealthy expatriating individual must remain in compliance with the strict physical presence limitations to continue to be taxed solely on enhanced U.S. source income, rather than worldwide income.

A careful projection of an individual's travel and lifestyle plans and alternatives is required to evaluate the tax risks of expatriation.

VISITS TO THE UNITED STATES

Expatriates, in order to avoid being taxed on worldwide income, must sever physical ties with the United States, which is evidenced by presence in the United States for no more than 30 days in each year in the 10-year period after expatriation. A daily calendar with third-party evidence of all travel is essential to prove this. Annual copies of passports also are useful.

The 30-day requirement now is absolute, save for one narrow exception: Expatriates who are fully taxable citizens or residents of the country in which they, their spouse or either of their parents were born and are traveling on business for a company that is not owned by their family are allowed an additional 30 days per year.

There are no general exceptions to the physical presence restriction, and the repercussions of inadvertent U.S. residency could be catastrophic. Additional days due to medical emergencies, transit delays, diplomat status or for students and teachers no longer are allowed. An expatriate suffering a heart attack while in international transit at a U.S. airport could now confront the eternal question, "Your money or your life?" It might even be wise to consider a hospital jet out of the country.

INCOME TAX

Some expatriates are subject to taxes on an expanded base of U.S. source income and gains for a 10-year period following expatriation. The principle behind this is that they are taxed on income and gains from assets located in the United States even where general source rules would look to the non-U.S. residence of a nonresident. This prevents them from avoiding U.S. taxes by waiting until after they leave to realize built-in gains on U.S. assets. Once the taxable income has been determined under the alternative tax regime, it is taxed at the graduated rates applicable to U.S. citizens (unless withholding tax for nonresidents results in a higher liability). Any liability may be offset by foreign tax credits.

ESTATE TAX

Generally, a nonresident noncitizen is subject to U.S. estate tax only where U.S. property is held at the time of death. The Jobs Act expanded the estate tax in two important ways. First, under the new objective tests, a wider pool of "wealthy" expatriates is expected to report taxable estates during the 10 years after expatriating. Second, where expa-

RESOURCES

IRS Web site links

- International Taxpayer
  www.irs.gov/businesses/small/international/index.html
- International Taxpayer—News and Events
  www.irs.gov/businesses/small/international/article/0,,id=96628,00.html
- Publication 553 (1/2005), *Highlights of 2004 Tax Changes*
  www.irs.gov/publications/p553/ch07.html
- The American Jobs Creation Act
  www.irs.gov/businesses/small/international/article/0,,id=132515,00.html
- Instructions for Form 8854 (3/2005)
  www.irs.gov/instructions/i8854/ch01.html
- Publication 519 (2003), *U.S. Tax Guide for Aliens*
  www.irs.gov/publications/p519/ch04.html
- Publication 4261, *Do You Have a Foreign Bank Account?*
  www.irs.gov/businesses/small/article/0,,id=122500,00.html
- Foreign Bank Account Publication 4261 Is Available in Multiple Languages
  www.irs.gov/businesses/small/article/0,,id=135606,00.html
- IRS and FinCEN Announce Latest Efforts to Crack Down on Tax Avoidance Through Offshore Accounts
  www.irs.gov/newsroom/article/0,,id=108790,00.html
- The Life and Times of a Currency Transaction Report (CTR)
  www.irs.gov/compliance/enforcement/article/0,,id=112228,00.html
- FAQs Regarding Penalties
  www.irs.gov/govt/tribes/ article/0,,id=108301,00.html

triates have the misfortune of dying in a year in which they exceed the 30-day physical presence test, they will be taxed as U.S. residents, so that their gross estate will include all U.S. and other assets, wherever held. Think of the expatriate who suffers a heart attack in transit through a U.S. airport. A 31-day hospitalization followed by his death would subject his worldwide estate to U.S. taxes. Departing expatriates should review their U.S. and global estate plans carefully with their CPAs to accommodate these new rules.

GIFT TAX

Changes to the gift tax rules parallel the new estate tax provisions, with the added inclusion of additional persons as expatriating individuals, and the imposition of gift tax on transfers of stock of certain closely held foreign corporations, based on a "look-through rule" that considers underlying U.S. assets. Accordingly, gifts made by expatriates during the 10-year post-expatriation period must be monitored.

The look-through rule expands the definition of U.S. property to include property located in the United States that is indirectly held through certain foreign corporations. When an expatriate gifts stock during the 10-year look-back period, the taxable gift will comprise the pro rata share of U.S. property held by any foreign corporation in which the expatriate owns a 10% or larger interest of the total combined voting power, and in which the expatriate directly or indirectly owns more than 50% of the total combined value of the stock.

For example, let's assume an expatriate gifts 60% of a foreign corporation that has a fair market value of $5 million, of which 40% is represented by assets in the United States. In calculating the taxable gift, $1.2 million ($5 million × 60% × 40%) is included, representing the proportionate share of the closely held foreign corporation's U.S. assets.

An expatriate suffering a heart attack while in international transit at a U.S. airport could now confront the eternal question, "Your money or your life?"

WINNERS AND LOSERS

The largest group of winners under the new law is the expanded group of near wealthy who will be able to expatriate more easily. The most fortunate winners are the select few wealthy individuals who qualify under the narrow fairness exceptions for expatriating individuals who were accidental taxpayers with virtually no U.S. connections. Any of these people now may expatriate with minimal further consequences, and have been relieved of the burden to file protective letter ruling requests on exit.

Losers will fall into several groups. The largest likely will be those without good U.S. tax advice, wealthy or not, who leave without satisfying the reporting requirement. The 10-year reporting period starts only when the taxpayer reports the departure. Particularly likely to err under the new rules are former long-term residents who may be ignorant of the scope of U.S. taxation and uninformed about the exit rules. As technology improves, it's conceivable that years or even decades later, a former green card holder will be stopped at a U.S. airport and informed of years of delinquent past returns with overdue tax, penalties and interest on worldwide income for the intervening period. Foreign executives who have spent extended periods in the United States on green cards are among those most likely to find themselves unwittingly shackled to the U.S. tax system.

In dollar terms, the biggest losers will be those who have genuine reasons to leave and strong connections with another country, but do not meet any of the exceptions. Another group who will be unable to satisfy the new tests are those with strong connections with another country, but also U.S. ties that compel them to visit here.

LEAVING AMERICA WITH DIGNITY

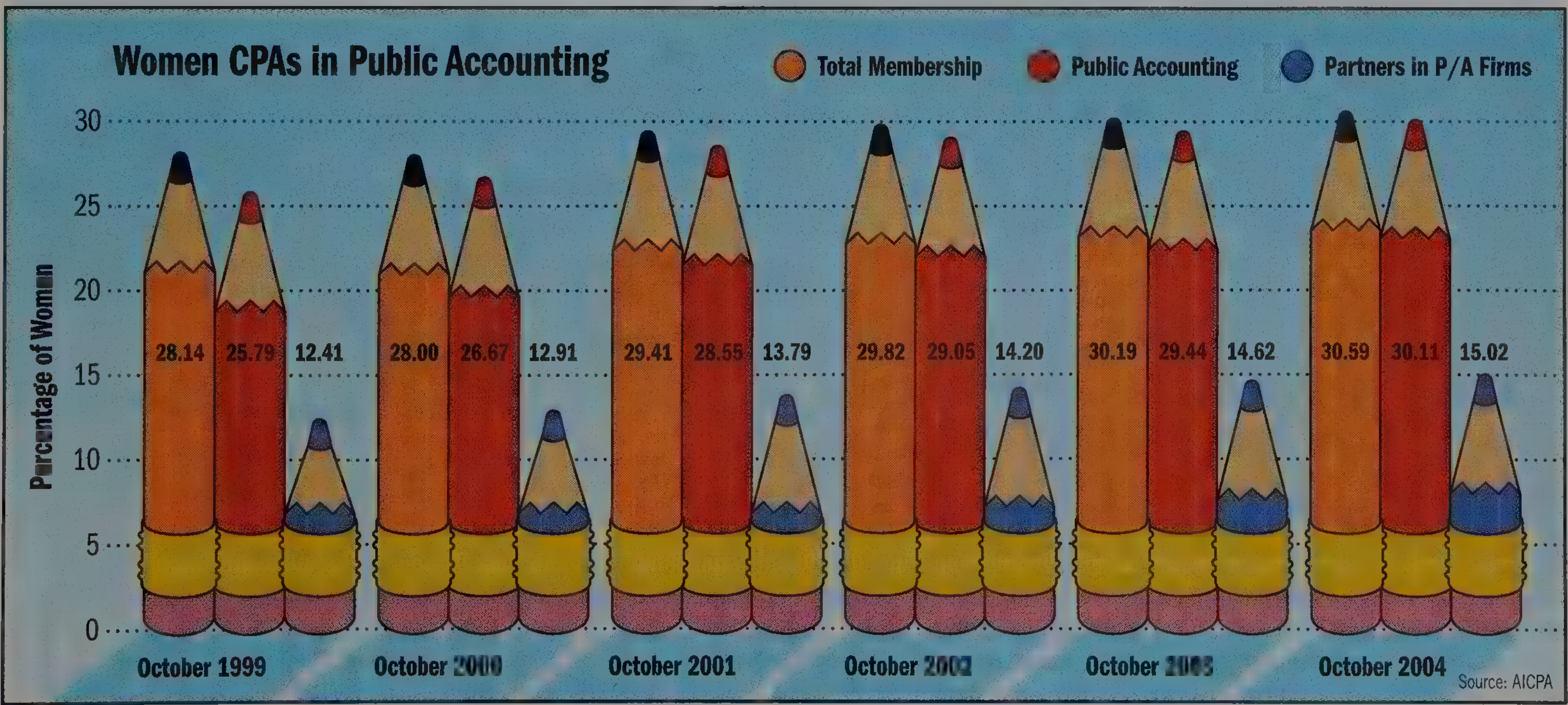
The new rules both expand the categories of income of expatriating individuals subject to U.S. tax and create additional classes of persons subject to such tax. The law's focus and strict exemptions will make administration and enforcement easier and more objective. Leaving America will be easier and more straightforward, but also will involve significantly more paperwork and postdeparture monitoring for the expatriates and for the CPAs who advise them. ■

PRACTICAL TIPS

- **Obtain detailed calendars and client case histories for 5 or, in some cases, 15 years before projected departure when evaluating the potential consequences of expatriation.**
- **Document client expectations in the original plan to monitor actual activities as compared with planned lifestyle to modify the tax plan as needed during the sensitive 10-year postdeparture window.**
- **Suggest clients keep a daily calendar with third-party evidence of all travel to prove an expatriate's whereabouts for 10 years postdeparture. Annual copies of passports also are useful.**
- **Recommend departing expatriates review their U.S. and global estate plans carefully to accommodate their new tax status.**

Staffing Update: Issues, Trends, Initiatives

The pressure to replace exiting retirees…Big firm moves to recruit and retain…Closing the gender gap…Tone and style at the top…Growing talent…Analyzing your work/life balance…Flextime models…Trailblazers and rising stars



Leadership/Career Development

A Business Imperative

No talent left behind.

What do high labor costs, succession planning and client expectations have in common? Answer: They are all huge challenges facing the accounting profession. Large numbers of corporate and firm executives quickly are approaching retirement and many will leave in the next 10 to 15 years. The challenge is clear: Firms will have to find highly skilled replacements for their senior professionals. The solution: Recruit, retain and promote top talent.

The advancement of women is critical to these goals. Yet, despite the large number of women who enter the profession every year, relatively few have advanced to the level of partner, senior executive or corporate board member. That will have to change. It's no longer a question of addressing women's advancement because of fairness: It's become a business imperative.

In the last decade, a number of firms and companies began to consider ways to address this issue. Many analyzed the situation, developed plans and evaluated the outcomes. Leaders found the key to success was to show how the advancement of women benefited the organization to underscore its strategic importance to everyone. Firms with successful plans typically see the following benefits:

■ ***Reduced costs.*** Organizations that retain and promote a significant portion of their talent pool minimize the need to compete for experienced talent in a costly labor market.

■ ***Improved succession planning.*** Many firms reevaluated their selection process to identify candidates for special development programs when they realized women were receiving few invitations. They understand the need to invest in professional development, cultural change and strategic plans that prepare the next generation for leadership. They identify future leaders earlier in the process and provide them with the professional development opportunities they need to excel. Drawing from a larger, more diverse talent pool gives leaders and participants a better understanding of the issues and personal challenges they will face and results in new and creative approaches.

■ ***Enhanced relationships with clients and customers.*** Business owners and stakeholders in our diverse economy demand their leadership teams and outside professionals reflect the diversity of American culture and global business. Management appreciates seeing a team that represents the community, and sees the benefits of new ideas and approaches offered by teams that reflect the demographics of the community.

There is a measurable business case for women's advancement and it's a persuasive one. Firms that focus on the promotion and development of women and minorities not only see immediate benefits but also prepare for coming challenges. Firm leaders who recognize the value of addressing women's advancement aren't just doing what's right, they're preparing for tomorrow and doing what's smart.

—Nancy R. Baldiga, CPA, associate professor and chair, department of economics, College of the Holy Cross, Worcester, Mass.

The Family Values Shift

Gen X employees work as many hours as baby boomers but are more family-focused overall, according to an analysis published last year by the nonprofit Families and Work Institute for the American Business Collaboration, a consortium of U.S. companies.

	Gen-Xers (ages 23–37)	Boomers (ages 38–57)
Do you put work first?	13%	22%
Do you put family first?	52%	41%
Are you dual-focused?	35%	37%
Weekly hours worked in 2002	44	45
Number of workday hours father spends with children	3.4	2.2

Source: *Workforce Management*, May 2005.

The Proof Is in the Payback

John Ferraro, Americas vice-chair, client service, talks about Ernst & Young's priorities.

We hear a lot in business about the importance of the tone at the top in motivating people to do the right thing. What leaders *do* (not just *say*) is a defining factor in how the rest of the organization behaves. The right tone is essential not only in setting ethical expectations, but in helping people understand the organization's priorities.

A top priority at Ernst & Young LLP is retaining and developing our talented and experienced women. With Ernst & Young's strategy based on people and quality, it makes all the sense in the world for us to focus on growing and advancing women. We are meeting not only our commitment to inclusiveness, but also the demands of our clients, who increasingly tell us they expect to find diversity at the table.

So retaining and developing women just makes great business sense. For Ernst & Young it has paid significant, measurable dividends. A couple of years ago, we created a "flash report" of the benefits from our efforts to retain female client service employees. We found our efforts translated into savings of about $10 million a year—money that otherwise would have been spent recruiting, training and developing new talent.

There are two major reasons for our success in developing and promoting women. First, we focused on providing our women (as well as the men) with the flexibility they need to fulfill their commitments outside the office while succeeding in their work. Second, our engagement in women's careers has sent a clear message that we believe in them and are ready and willing to invest in their advancement, and they can succeed with us. A recent research report cofunded by Ernst & Young confirmed that not only is flexibility key in keeping talented women on the road to success, but so is active support of their career goals.

Getting the buy-in of senior leaders is not enough—their *ownership* also is critical; that means not just the support of male leaders, but their involvement and continual innovation. We've seen that at Ernst & Young, and from my vantage point as the executive sponsor of our firm's inclusiveness efforts, I believe it has been essential to our success in developing and retaining women.

An innovator among our senior leaders is Paul Bader, Americas vice-chair/transaction advisory services. While he was New York area managing partner, he created an in-house "Career Watch" program. It ensures top-performing women are assigned to top clients, business development opportunities and projects, and get the opportunities they need to grow and excel—not on the basis of work schedules but, instead, on performance and talent. Reduced workweeks should mean a smaller workload and proportionate pay, but *not* less interesting work.

Another advocate of women's development is Michel Lanteigne, who led Ernst & Young's tax practice in Canada until his retirement. He encouraged women team members to make presentations to senior management, letting them take center stage to showcase their abilities and hone their skills. Currently more than half of the Canadian tax practice leaders are women; two of the three regional tax practice

John Ferraro, CPA, Americas vice-chair, client service, Ernst & Young, says there are plenty of reasons why giving women the chance to shine is a good idea for every firm.

leaders are women; and Michel's successor as tax managing partner for all of Canada is a woman.

David Alexander, our Southwest area managing partner in Dallas, also dedicates serious time to advancement issues. He attends two all-day sessions annually in which people with supervisory duties examine whether the career advancement needs of *every* female minority manager and senior manager in the geographic area are being met. He also meets twice a year with the area's principals, partners and directors to discuss women's issues and vigorously promotes Ernst & Young's professional women's network events.

These are just a few of the male leaders who not only support but also innovate and lead our efforts to create the right environment for that advancement.

If all of us work hard to help women and minorities find their place in all our organizations, everyone will prosper. I firmly believe in that—not only as the right thing to do, but also as a business imperative.

The Track Record

- In 1996, 5% of Ernst & Young partners were women; today women make up 13% of the partner level—an increase of 160%.
- In 1996, 30% of Ernst & Young managers and senior managers were women; today women make up 39% of those management levels.

HOW TO SUPPORT FEMALE TALENT

- Ask women and minorities for their points of view—with the goal of more frequent and candid conversations on a variety of topics.
- Don't assume that a woman with young children won't or can't travel.
- Don't assume "what kind of person" a client will want on a project.
- Encourage managers to put together diverse slates of names when they are assembling teams.
- Offer honest, timely and constructive feedback to women and minorities so they will recognize their development needs.
- Become a role model and mentor. Talk about the ideals of flexibility and diversity and do things that are consistent with what you're saying. If you get a new insight about flexibility or diversity, share it with others—especially male colleagues.
- Invite women and minorities to go with you in a variety of professional settings. Offer them chances to make presentations and meet influential people.

Growing Talent Is Everybody's Business

Turn more rookies into partners.

One of the biggest evolutions in the accounting field's 100-year history is the presence of women in the profession. As of 2003

- 42% of full-time CPAs were women.
- Almost 6 in 10 (59%) of the staff in entry-level positions were women.
- Almost 1 in 5 partners (19%) and 4 in 10 (38%) senior managers were women.

Despite these numbers, women still lag behind their male counterparts in leadership positions. As firm partners retire over the next 10 years, it will be critical to prepare for the leadership losses by developing women for these roles. Initiating the growth of women is a shared responsibility between firm leaders and managers on the one hand and women themselves on the other. Each has a defined role.

THE FIRST FIVE YEARS

Women

Build your core accounting skills and work to become a process leader. Learn the business, the field of practice and how best to work and communicate with a diverse set of people across all levels of the organization. Begin honing your industry knowledge to set you apart from your peers and to develop more effective and efficient approaches to your client engagements. Most important, work on completing your CPA exam by your second year.

This also is a great time to identify a mentor one to two levels above you to guide you through those unwritten and often complex organizational rules not taught in accounting classes. A mentor of either sex is appropriate, because building your core accounting and business competencies can be learned from any great leader.

Firms and managers

Let new employees know they are expected to perform well immediately and hit targets. Regular on-the-job coaching keeps employees of both sexes working most effectively for the organization. Actively manage employee talent by weeding out poor performers and identifying rising stars of both sexes, and support the establishment of a mentoring program.

STAFF LEADERSHIP

Women

Being a firm leader requires management experience, so seek opportunities to build a team to follow in your footsteps. Delegate and empower a group to accomplish much more than you could as one individual. Coach and prepare individuals to succeed you to make your transition into a new role smoother for both clients and your team.

Firms and managers

Cultivating and expanding the abilities and skills of females will allow you to more fully develop your human resources capabilities at a time when no company can afford to ignore a single source of competitive advantage. Offer assignments that stretch the skills of talented people to accelerate their growth.

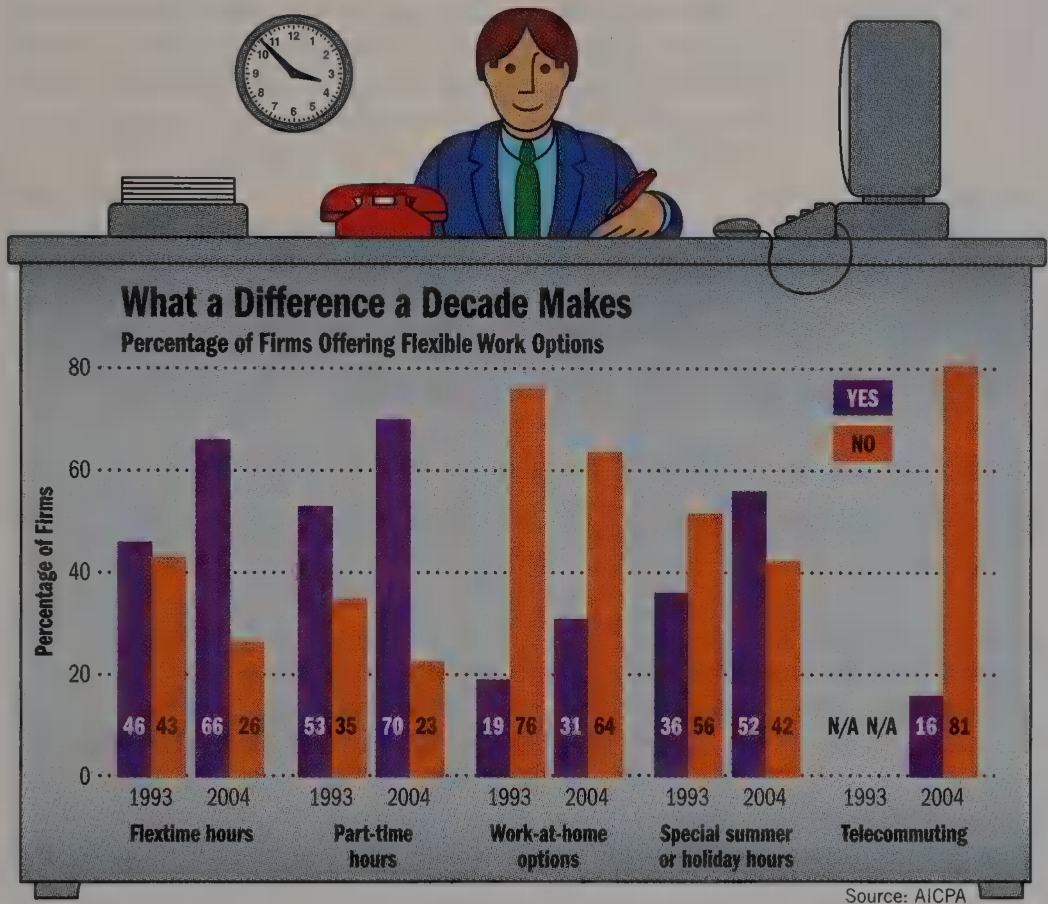
PROFESSIONAL GROWTH

Women

Once you've demonstrated success in developing both your core skill sets and your team, turn your career vision outward and participate on an industry committee that focuses on the service niche you've developed. Get involved on task forces or projects and seek out leadership positions, such as serving as a committee head or accepting speaking assignments at conferences.

Firms and managers

Take note of performers who are increasing visibility for themselves and the firm through professional organizations. Look for ways to align the advancement of women with your business agenda. For example, joining women's networks could bring in women business owners as clients. Harness performer talent—or risk losing it.



Source: AICPA

PRACTICE LEADERSHIP

Women

It is critical to understand the strategic direction of the firm and your role in its growth. Continually update and revise your career plan. Get a professional coach for an honest perspective on where you need to improve your skills.

If you want to be a leader, make yourself highly visible. Write articles, participate in media interviews, volunteer for leadership roles in firm initiatives and make internal and external presentations. Focus on improving yourself in areas where you need development for leadership roles.

Firms and managers

Create an environment where flexibility doesn't bring career penalties. Research shows both women and men will take advantage of workplace flexibility programs.

There is no magic bullet to propel women forward; it takes hard work, dedication and commitment. Creating an environment where women want to work benefits all employees and positively affects the bottom line. Preparing for the future is critical—our profession depends on it.

—Anita Baker is principal-in-charge of benefit services firmwide at LarsonAllen, Minneapolis

The Style Split

Good communication has no gender.

Do men and women really differ in the way they lead? Absolutely. But while most of us easily recognize and appreciate the differences in our personal relationships, it is not always so easy to see them in the business world. Yet, with more women in management roles today, it is important to understand the differing dynamics of male and female leadership styles and to use them to foster more productive work environments.

According to Vangela M. Wade, an attorney and certified diversity management practitioner with the Wade Group of Jackson, Miss.: "Perhaps one of the most influential factors on male and female leadership styles is communication style, which is derived from a distinct gender culture. Research indicates that men and women communicate in vastly different ways, which surpasses personal relationships and extends into their professional communication styles. For example, generally, men tend to communicate in a hierarchical, goal-oriented style, viewed as authoritative, decisive and efficient. On the other hand, women, generally, tend to communicate with a focus on process and the engagement of others in reaching goals and making decisions."

(continued on page 92)

Wade says these two distinct styles often affect how successful male and female leaders are perceived in today's business and professional arenas. "Our society expects male leaders to be aggressive, authoritative and stern, but fair and decisive in their judgments and decisions. However, women with the same leadership or communication styles are sometimes said to be too emotional, difficult to work with or for and too aggressive. Even women subordinates sometimes find it difficult to work for women leaders with what is viewed as a 'masculine' style. Generally, women are more comfortable communicating with other women in a level, 'dead-even' style—even at differing levels of authority."

What one sex sees as a strength may be viewed as a problem or weakness by the other. Listening and acknowledging are important traits to women, but they can be tiresome to men. Men tend to make decisions faster than women and to be more aggressive, which can be frustrating to women because women are more willing to ask questions and seek input from others.

Nonverbal communication does not always have the same meaning for women and men either. An act as simple as the nod of a head can have a different meaning; women nod to show they are listening while men nod to show they agree. It is important to recognize and work with these differences.

The best leaders of both sexes recognize the need to blend authority with empathy, and aggressiveness with encouragement, Wade says. The key to good leadership is knowing when to use the communication style that is most effective for the situation and the people involved. When a situation requires immediate decision and action, the hierarchical communication style is most appropriate. But in situations without an immediate deadline, it is generally most productive to obtain input and buy-in from those who will ultimately have the responsibility of action.

Good leadership is not male or female; it is simply good leadership. Successful leaders adapt to meet the needs of a particular situation. They empower an organization to attract and retain the most talented employees, to optimize growth and productivity, to attract and retain clients and to maintain a better quality of management. And, perhaps most important, they are the models for the people who will become tomorrow's leaders.

—Angela L. Beasley, CPA, is a senior manager with Horne LLP in Jackson, Miss.

THE TEST EVERYONE SHOULD TAKE

Mirror, Mirror on the Wall: Have I Got My Priorities Straight?

Is your professional/personal lifestyle out of whack? Too much of one, not nearly enough of the other? Take this simple test—you may be surprised at your answers.

❑ ***Burned out—or balancing tasks well?*** Are you juggling multiple tasks every day and exhausted from the demands of your personal and professional life?

Perhaps it's time for a schedule that provides more opportunity for work/life balance. There may be times in your career when an alternative schedule provides the support you need to manage life's challenges. Use flexible work arrangements and support them throughout your organization.

❑ ***Focused on today's tasks—or on the future?*** Are you always busy with a to-do list?

Consider your goals, understand what it takes to accomplish them and then set aside time for the tasks that are tied to your career. Don't get so wrapped up in today's tasks that you neglect the important personal and professional development and networking opportunities that are essential to your future.

❑ ***Conventional—or creative?*** Are you willing to think about things from a different perspective?

People who have advanced to the most senior positions at their firms often are the ones who offered new solutions to business problems. Fight the urge to do things the way they have always been done and let your creativity bring you the recognition you deserve.

❑ ***Isolated—or engaged?*** Are you making the most of your relationships with clients, colleagues, protégés, mentors and family?

Despite the fact that accountants constantly work with people, it's easy to feel isolated. The demands on your time may be so extensive that you may wonder whether you can spare any time to spend with others. Recognize that much of the success in accounting results from building relationships.

❑ ***Behind the 8 ball—or leading the pack?*** Are you so worried about getting the job done that you've lost sight of the bigger picture?

It's likely your organization is looking to identify the next generation of leaders. Involve yourself in programs and important projects that allow you to develop and demonstrate leadership skills.

—Nancy R. Baldiga, CPA, associate professor and chair, department of economics, College of the Holy Cross, Worcester, Mass.

Color Barriers

A two-part survey—conducted by Catalyst in 1998 and again in 2001—of African American, Hispanic and Asian American women in corporate management, including accounting firms, revealed both positive and negative trends. On the positive side, respondents said they

- Experienced positive career growth.
- Employed several key strategies to succeed—with great emphasis on the importance of networking and mentoring.

Yet they

- Moved out to move up.

And they were

- Less hopeful in 2001 about their career prospects than they had been in 1998.

Barriers to Advancement for Women of Color

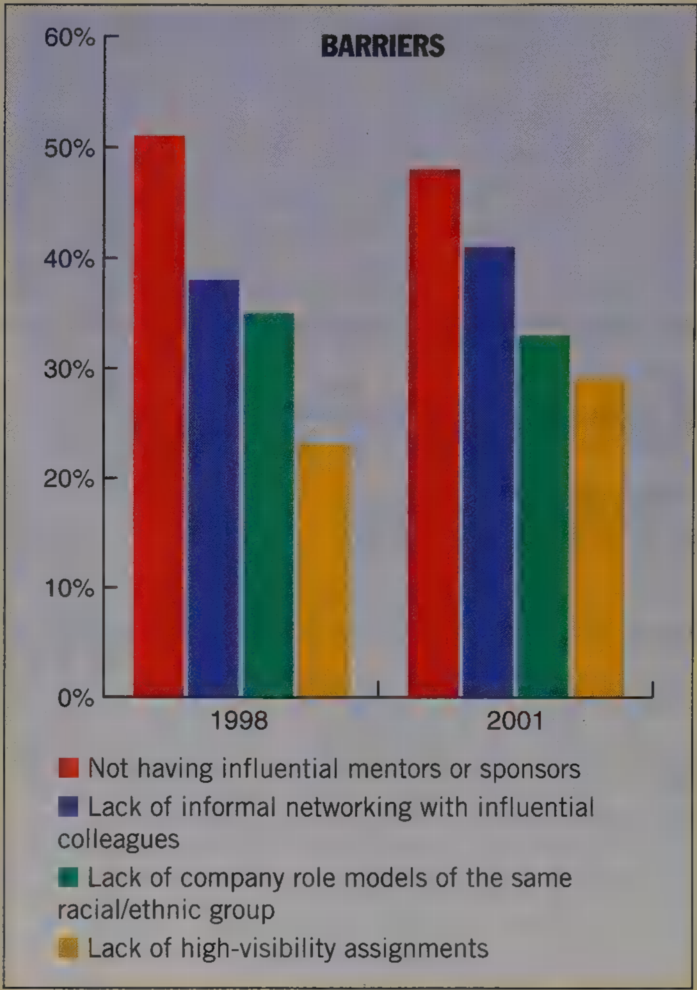
The study concluded that companies must create open, more inclusive work environments if they want to retain women of color as managers. In both studies women of color cited the lack of support mechanisms they perceived in their companies.

How Managers and Management Influenced Retention

The study identified three factors that "predicted retention" of women of color:

- The quality of their relationship with managers.
- Management's role in diversity efforts.
- Openness in the work environment.

The study concluded that when women of color perceived that upper management and their supervisors were committed to diversity and they experienced high-quality relationships with their direct managers, they were likely to view their work environments quite favorably.



Catalyst is an independent, nonprofit research and advisory organization working with businesses and the professions to build inclusive environments and expand opportunities for women at work. It has offices in New York, San Jose, Calif., and Toronto.

Ready to Move Ahead?

Here's some of the best advice offered by successful female CPAs.

- **Present a positive role model.** Take a good look at the image you project.
- **Recognize the value of the whole person.** There's more to success than the number of hours billed or promotions earned. Balance your professional and personal goals. Take advantage of flexible work arrangements that allow you to succeed in all of life's arenas.
- **Open the door to networking and professional development opportunities.** Participate in programs that expand your skill set. Attend networking events to develop relationships that may yield potential clients or opportunities.
- **Make the most of your mentoring relationships.** Look for a mentor who is a good listener, understands what it takes to get ahead, recognizes individual strengths and weaknesses and is a good coach. If you possess these skills, volunteer yourself.
- **Offer to get involved in critical projects.** Successful professionals seek out high-visibility, mission-critical projects that bring recognition. Don't limit yourself to routine work; take a risk.
- **Take your ideas to the top.** How many times have you had an idea for a way to improve things in your organization? Accountants are natural problem-solvers. Propose your ideas to the leadership team.
- **Enjoy yourself.** Don't spend time regretting your choices or feeling guilty. If you decide to reduce your hours and work part-time, don't worry about the time you are away. If you choose to spend time with family, make the most of it. Cherish your friends, love your family, enjoy your hobbies and take care of yourself. Your career is one part of your life, but it's not the only way to define your success.

—Nancy R. Baldiga, CPA, associate professor and chair, department of economics, College of the Holy Cross, Worcester, Mass.

Flextime

Not Your Father's CPA Firm!

Mary Kay Humfeld talks about a new employment model.

Today's CPAs come from very diverse backgrounds and have very different expectations from the employees of a generation past. Students and new hires in the accounting profession have made it very clear they value balance in their lives—and workplace flexibility is a necessary component. Workplace flexibility, once considered a female issue, may have been only the canary in the coal mine in the past. But in today's world, the desire to find a work/life balance is gender-neutral and actually may be a generational theme.

Mary Kay Humfeld, vice-president of human resources for American Express Tax & Business Services Inc. (TBS), says staffing issues are becoming more generation- than gender-based.

In a 2002 Catalyst study of men and women aged 25 to 35, 37% of respondents said they used flexible arrival and departure times and an additional 46% said they wanted this option; 6% worked a compressed workweek and 67% said they wanted to do the same; 17% telecommuted and 67% hoped they could; 4% worked reduced hours, 36% said they wished for the same option; and 4% had had a leave of absence, which another 43% wanted.

Smart organizations and associations are addressing the needs and expectations of employees and implementing flexible work arrangements. In May 2003 the first Work/Life Conference held by the AICPA, the American Woman's Society of CPAs (AWSCPA) and the American Society of Women Accountants (ASWA) brought together a diverse group of accounting professionals to discuss flexibility in the workplace. They discovered that work/life programs and policies were not luxuries.

Deloitte & Touche conducted a study of why women were leaving and found it was to go to more flexible firms—unfortunately for Deloitte & Touche, they took their training with them.

It's generally agreed that it costs 150% of a person's salary to replace a good employee.

Employee dissatisfaction has a negative impact on a firm's bottom line. In 1999 workplace stress cost American business $3 billion, and that figure continues to rise. Kathy Lingle of the Alliance for Work/Life Progress says, "Researchers have found that people who have little control of their work life have a 70% higher risk of dying from heart disease than those who can decide what they will do and when."

Studies show that as employee satisfaction and loyalty increase, so do service quality and value. Customers and clients react favorably to employees who are satisfied. Even more telling is that 73% of *Fortune* magazine's "100 Best Companies to Work For" had higher-than-average return on investment.

A recent study by Sears found that a 5% increase in employee satisfaction led to a 12% increase in sales.

Cutting-edge firms are recognizing these facts. Many now are putting together business plans that include flexible work arrangements and setting goals to become the "employer of choice."

But change is difficult. Many decision makers have built very successful practices using old accounting employment models in which face time is key and 80-hour workweeks standard if people want to advance. Such decision makers may be reluctant to embrace a model that is significantly different. However, as Tom Meador, CEO of American Express Tax & Business Services Inc. (TBS), says: "The metrics will force change. We must balance the needs of our employees, the needs of our clients and the needs of our shareholders." Satisfied and loyal employees go a long way toward making this balancing act work.

In the last decade those wanting to advance their careers used informal rather than formal flexible work arrangements. Linda Bergen, CPA, of Citigroup says while she was in public accounting she used the accumulated overtime of busy season to take care of her children in the summer. Respondents generally believed that formal arrangements still could negatively affect a person's career path.

In a survey conducted by TheLadders.com, 62% of men in top income brackets said they would put their careers on hold to become stay-at-home dads.

We are now on the cusp of a new employment model. Progressive firms are discarding rigid career paths. Technology allows us to work virtually anywhere, anytime. Several of the top- and middle-tier firms give employees the opportunity to take leave for a period of time and then come back into the firm at their same level. TBS calls this the "Time Out for You" program. Bergen's informal summer model now has become a formal model called the modified work arrangement or teacher model and top management in many firms is pushing its acceptance. Firms are holding seminars and educating their top decision makers. Over time output will be more valuable than input. Value to the firm no longer will be measured by the amount of face time or billable hours but rather by productivity and the quality of the work product.

Our profession is changing on many fronts. The change to a more flexible employment model can make better employees, better managers and ultimately more satisfied performers. These arrangements are a true success story of our generation.

—Marianne Heard, CPA, director,
Boston region,
American Express Tax & Business Services

Flextime to the Nth Degree

Deloitte's long-term leave program keeps alumni connected.

After her twin boys were born in February 2004, Ann Donaghey decided to take an extended period of time off from her job as senior manager in the tax practice of Deloitte & Touche LLP's Chicago office. Although she had been on a successful flexible work arrangement and had been promoted twice in the last six years, she found the arrival of the twins added too much to her juggling act; leaving Deloitte seemed the only alternative. Then, last June, Donaghey learned about Deloitte's Personal Pursuits program, which allows employees who leave the workforce for up to five years to stay connected through a mentor and training opportunities. She immediately signed up. "Personal Pursuits is giving me the opportunity to be there during an important time in my children's lives, while leaving the door open to return to Deloitte when I'm ready," she says.

Personal Pursuits provides a host of resources to keep participants connected, skilled and up to date, including training, mentors, networking events, short-term work assignments, career coaches and resources to maintain professional licenses and professional association memberships.

Taking years off to care for children no longer means giving up career goals; Deloitte is bolstering and designing flexibility programs with the goal of retaining valuable employees like Donaghey.

"We recognize that some people in our profession are compelled to leave the workforce during the course of their careers for personal reasons," says Cathy Benko, Deloitte Consulting LLP's technology sector leader and national managing director of its Initiative for the Retention and Advancement of Women. "Personal Pursuits allows eligible employees to exit from the work track without breaking their ties to us or losing the skills and networks they'll need when they're ready to return. Helping our people meet their personal and professional goals is part of our continuous effort to build a culture where the best choose to be."

In addition to boosting retention, the program helps Deloitte reduce the high cost of turnover. Deloitte estimates the cost of replacing an employee is at least two times salary. Personal Pursuits costs about $2,500 per year per participant, a small price to retain an employee with a strong track record.

Currently, 28 male and female alumni from 19 cities are participating in a pilot run of Personal Pursuits, which Deloitte plans to expand in 2006. In addition to people who want to spend more time with their young children, participants include some who are taking care of elderly relatives or serving in the community. "It's great to have this program because it gives me more choices and options," Donaghey says.

—Mai Browne, senior manager,
national public relations at
Deloitte Services LLP, New York

More Mothers Are Staying Home

According to the U.S. Census Bureau, the percentage of new mothers who work fell to 55% in 2000, continuing a steady decline from 59% in 1988.

Source: Deloitte Development LLC.

But They Plan to Come Back

84% of Generation X (25 to 35 years old) stay-at-home moms say they may return to work.

Source: Deloitte Development LLC.

The Business Case for the Personal Pursuits Program

Estimated cost of losing a valued employee	$150,000
Estimated annual cost of a Personal Pursuits participant	$ 2,500

Source: Deloitte Development LLC.

Making Flextime Work

Susan Coffey, CPA

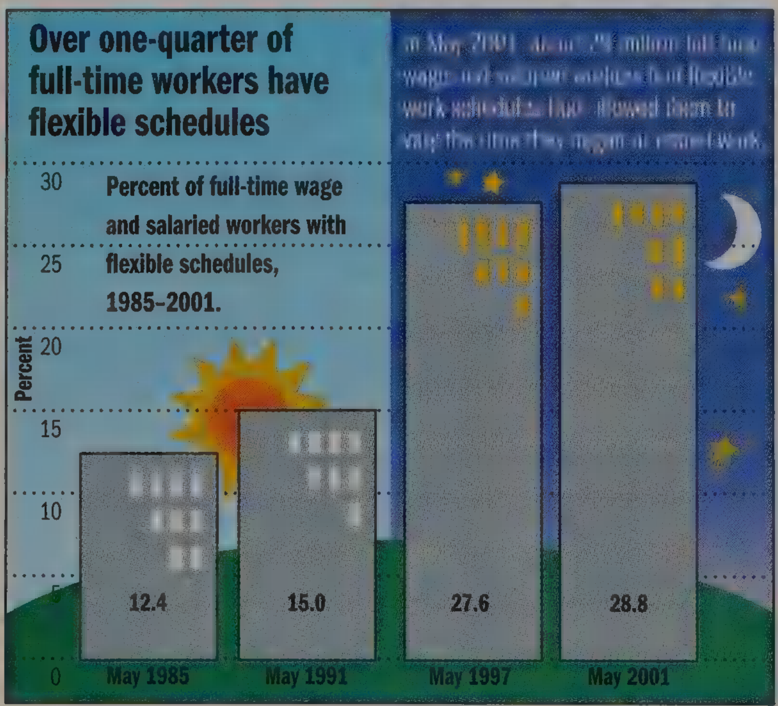
Arleen Thomas, CPA

Susan Coffey and Arleen Thomas, the first women to be promoted to senior vice-president at the AICPA, both make use of flexible work arrangements (FWA). With two young children each, Coffey and Thomas have used the AICPA's telecommuting program and work two days a week from their home offices.

Using FWA saves Coffey about 2½ hours and Thomas about one hour of commuting time each day—time they can spend on AICPA work or family activities. Each uses a combination of nanny, baby-sitters and alternative sources to care for her children. Coffey's parents and extended family look after her children, ages seven and eight, after school and when she and her husband have to work late or travel. Thomas turns to the Working Women of Bronxville Network, a group of working mothers who help each other when regular baby-sitting agreements don't work out.

Coffey is vice-president of member quality & state regulation, a group that has 50 people and covers professional ethics, peer review, audit quality centers and state regulation and legislation. She joined the AICPA 15 years ago as a technical manager in the independence and behavior enforcement area and was promoted to vice-president in 1998, and then to senior vice-president in 2005. Before joining the AICPA, she worked for Coopers & Lybrand and the Berlitz School of Languages.

Thomas was promoted to senior vice-president in 2005, heading the member competency and development group whose 243 people are responsible for developing professional standards and member guidance and organizing the CPA exams, conferences and training programs. Thomas joined the AICPA in 1992 as a director in accounting standards and AcSEC support. She was promoted to vice-president of self-regulation, peer review and professional ethics in 1995, and became vice-president of her current group in 1998. Before joining the AICPA, she worked for KPMG in the audit practice for nine years.



Source: The Bureau of Labor Statistics, U.S. Department of Labor.

Coffey says the FWA program helps her manage her time and focus on work. With a separate office area set up at home and telecommunications access to in-office facilities, she says she is more productive working at home and also has achieved a work/life balance that allows her to work in the school library and attend school events.

Thomas coordinates with her husband on work and travel schedules. One leaves for work early and comes home early, the other the reverse; when one travels, the other doesn't. She has dinner with her three- and five-year-olds every day and plays with them until 8:30 p.m., when she goes to her home office to work again. Thomas says she is fortunate never to have missed a school event.

Still, FWA has its challenges. It requires organizational skills and discipline to run a home office. When the children are around, Thomas puts a yellow sign on her office door, and they understand that it means: "Do not interrupt. Mom needs some quiet time."

Barry Melancon, president and CEO of the AICPA, believes in retaining talented people and helping them achieve work/life balance. His belief is: Balance everything so you can be good at anything. The AICPA measures success on output, not input, and FWA fits in with this philosophy.

—Linda Berger, CPA, vice-president, corporate accounting policy at Citigroup, New York

Profiles in Success

Advice From Trailblazers and Rising Stars

Since 1986 more than 50% of accounting graduates have been women vs. just 10% in 1970. Much of this impressive progress is due to noteworthy women and their contributions to their employers and to the profession.

Be True to Personal Values

Shirley Cheramy was the first female managing partner of a "Big Eight" firm. "The partner who appointed me was totally unaware no other woman had ever held a similar position. He said he chose me for the 'right reasons' and not because I was a woman." A 1970 University of Washington graduate, she joined Price Waterhouse, Seattle, and in 1990 became the first woman to be a managing partner of the Century City, Los Angeles, office. In 1994 at age 46, Cheramy retired to Wyoming and is currently active in nonprofit organizations.

Speak Out, Move Up

Lissa Perez is a Deloitte & Touche partner and Tennessee practice leader for the enterprise risk services group. The 1991 Miami University graduate successfully handled international assignments, spousal job relocation and three children by a willingness to be adaptable, using flexible work arrangements and having self-confidence. Perez says women in general are not good about "tooting their own horn" and tend to focus on the project at hand, believing that if they are successful in completing it, their work will speak for itself.

"Can-Do" Attitude Works

Julie Floch of Eisner LLP in New York became an audit partner in 1998. An avid fitness, music and dance enthusiast, she cites helping to start Eisner's not-for-profit practice as her greatest professional accomplishment. It enabled her to combine her arts background and love of the not-for-profit sector with her "day job" of accounting. Floch also is proud to be an adjunct lecturer for New School University and Baruch College's MBA program. Married with

Shirley Cheramy

"The ability to focus on true priorities in life (not the 'status' that one has from a career) is so important and yet it often is very difficult if not impossible to do."

Lissa Perez

"Make sure you are proactive in seeking challenging assignments that provide visibility and then don't be shy about making your accomplishments known."

two teenage stepsons, she is aware that her full life naturally involves trade-offs.

Emulate the Best

Wanda Wallace, CPA, PhD, CMA, CIA, professor emeritus at the College of William & Mary, began her career in public accounting with a BBA at just 18 years of age. After completing a PhD at the University of Florida in 1978, she received numerous honors including being named "the most published accounting academic" as author of more than 40 books and 200 articles. Wallace has served the profession extensively through the FASAC, AICPA, AAA and Government Auditing Standards Advisory Council.

Surpass the Status Quo

Professor **Karla Johnstone** recently achieved tenure at the University of Wisconsin. Married for 14 years with three young children, she is proud of maintaining strong relationships with colleagues and family. She says her mother was key to her professional and personal success. "My mother was a working mom who showed me how to embrace and manage a full professional and personal life. She gave me the confidence to know that

Julie Floch

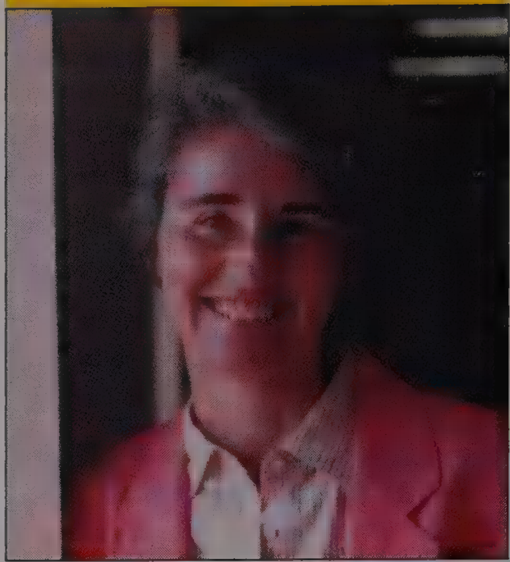
"The greatest challenge for anyone, male or female, is to believe in his or her own ability to 'do it all.' "

a woman can be many things, and that being multidimensional is not only possible, but fun, interesting and satisfying."

Confidence Propels

Judge **Judy Trepeck** of the Michigan Tax Tribunal entered public accounting in 1971 and built a consulting practice around law firm management, family-owned businesses and boards of directors. She has served the AICPA and the Michigan Association of CPAs, speaks internationally,

Wanda Wallace



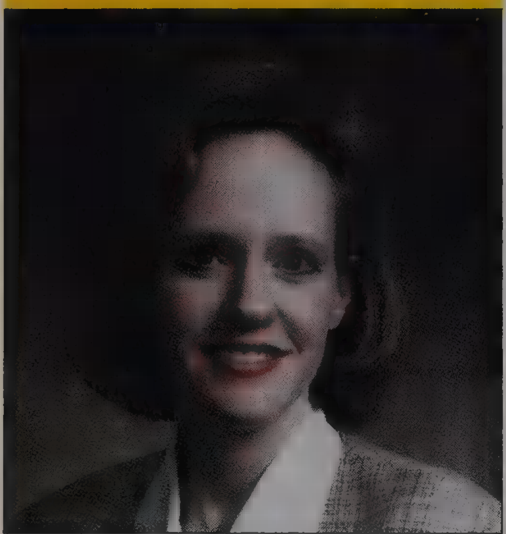
"Be professional, strive for excellence and always evaluate yourself relative to the top tier of your profession."

has received multiple honors and is the mother of two adult daughters. Central to her success was an early acknowledgement that accounting was about making information useful to clients.

Listen and Respond

Gloria Lamb Jarmon, managing director for congressional relations at the U.S. Government Accountability Office, is the Comptroller General's chief liaison with Congress. A 1982 College of William and Mary graduate, she began

Karla Johnstone



"Women must develop the social and political skills necessary to manage individuals whose views are inconsistent with seeing women in leadership roles."

Judy Trepeck

"Get others to really listen. Women think differently and that can create barriers. The 'glass ceiling' can be shattered by persistence, creativity and self-esteem."

Gloria Lamb Jarmon

"Be very responsive to people and results-oriented. When people see you come through for them, they forget your sex, race and family status."

Mandy Pope

"The greatest challenge faced by women is overcoming the internal struggle of work/life balance."

her career at Peat Marwick Mitchell in Norfolk, Va., where there were no minorities, female partners or female managers with children. Married for 19 years to a fellow accountant, Jarmon has two teenage sons. She's experienced barriers—a lack of role models—and made a financial tradeoff by leaving public accounting as a senior manager for better work/life balance in government.

The Work/Life Balance Challenge

Mandy Pope is senior vice-president and controller at Parkway Properties, a publicly held real estate investment trust in Mississippi. After obtaining bachelor's and master's degrees at the University of Southern Mississippi, Pope spent six years in public accounting before joining the Parkway organization. She cites numerous individuals as mentors, including several at Parkway, which has been named one of the top 25 small companies to work for. She says, "Thankfully, I've always worked in environments where promotions are based on meritocracy instead of gender, race or years of service."

—Elizabeth Dreike Almer, CPA, PhD, is an associate professor and Meadows Faculty Fellow at Portland State University in Oregon

AICPA RESOURCES

- The AICPA's Work/Life and Women's Initiatives Executive Committee. For information on work/life effectiveness and staff retention and development, e-mail educat@aicpa.org.

- Research. The latest research report containing trends and analysis is available at **www.aicpa.org/worklife**.

- *Women to Watch*. The AICPA, in conjunction with state CPA societies, honors women as role models for new professionals in the Women to Watch program.

- Women's Financial Literacy Campaign. The AICPA is helping women become more aware of financial literacy issues. Visit **www.360financialliteracy.org/women** for more information.

- Web site. Information on workplace flexibility and women's advancement is available at **www.aicpa.org/worklife**.

Publications

- *Promoting Your Talent: A Guidebook for Women and Their Firms*, by Nancy R. Baldiga, provides practice tips and real-life examples from leaders in the profession for tackling the obstacles firms and organizations encounter in leadership development and promoting talent as well as career guidance for CPAs. To order this publication visit **www.cpa2biz.com** or call the Institute at 888-777-7077.

- *The Facts on Workplace Flexibility*. Free brochure on a variety of topics pertaining to work/life, such as return on investment, culture change and benchmarking. E-mail educat@aicpa.org.

- *Mentoring Program Guidelines*. Free brochure to help mentors, protégés and employers implement a mentor program, tips for successful partnerships and agreement and evaluation forms. E-mail educat@aicpa.org.

DVD

Work/Life: Striking a Balance. Free DVD that explores the human interest story, the business case and best practices for work/life effectiveness. All complimentary items are available by request. Please e-mail educat@aicpa.org.

Conference

Women's Summit. Tuesday, October 11, 2005, Chicago. AICPA Vice-Chair Leslie A. Murphy will chair this event for managing partners, women's initiatives directors and human resources professionals of public accounting firms to share information on helping women professionals succeed. For more information visit **www.aicpa.org/worklife**.

JofA FOCUS REPORT

Payroll and HR Solutions

A special supplement to

JOURNAL OF ACCOUNTANCY

September 2005

Sponsored by

Paychex

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ADP

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Creative Solutions

Executive Roundtable:

To help CPAs further their understanding of payroll and human resource administration functions, we consulted with leading solutions experts for their perspective on trends, developments and predictions shaping the future of advanced payroll and HR management technologies.

Joining us this month are: **Walter Turek**, Senior Vice President, Sales & Marketing, Paychex, Inc.; **Richard Watson**, Vice President, Product Management and Accounting Services, ADP Small Business Services; **Dr. Chandra Bhansali**, President & Co-Founder of Accountants World, LLC; **Jon Baron**, President & CEO, Thomson Creative Solutions and **René Lacerte**, Co-Founder and CFO, PayCycle

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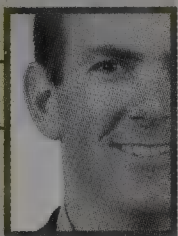
René Lacerte
PayCycle



Gentlemen, why is now such an important time in the arena of payroll processing and administration of HR functions?

RICHARD WATSON (ADP): Today's small businesses face increased regulation, from complex taxes to new hire reporting. Payroll experts can help organizations fulfill their compliance responsibilities and reduce their risk of fines and penalties. Outsourcing is a cost-effective way that small businesses can transfer the responsibility for administrative tasks, so they can focus more time on building their business.

WALTER TUREK (Paychex): I agree. In today's competitive business environment, the outsourcing of payroll processing and HR administration allows employers to focus on what they do best – running their businesses. As laws governing payroll and HR become more complex, and as HR expectations rise among employees and recruits, it makes more and more sense for an employer to let a third-party expert handle such functions, so they can concentrate on their businesses.

RENÉ LACERTE (PayCycle): Accountants now have the opportunity to add a year-round revenue stream that can have a meaningful impact on their firm's bottom-line. According to a recent survey by the National Payment Corporation, 90 percent of small-business owners indicated that they prefer their accountant to handle payroll, particularly to ensure compliance with government filings and tax principles.

JON BARON (Creative Solutions): Advancements in technology are making it easier than ever for accounting firms to offer service bureau level payroll services to their clients with little investment of labor. For example, today it is possible for a typical accounting firm to adopt a completely paperless payroll process, which I'll discuss in more detail shortly.

DR. CHANDRA BHANSALI (Accountants World): Without question, payroll is an accounting function. However, in the past accountants were forced to refer their clients who needed payroll services to service bureaus simply because accountants did not have access to the tools they needed to process payroll efficiently. The Internet has changed all that. Today there are accountant-centric payroll processing centers that give accountants the same power and automation that was previously available only to payroll service bureaus.

What are the most important trends you're seeing today when it comes to outsourcing payroll, HR and benefits administration?

Turek: I'd say it's the demand for a complete, comprehensive payroll and HR offering in which a customer is confident that a single vendor can provide multiple employee options. Additionally, employers are looking for that one source to quickly and efficiently retrieve the information required to manage their employees – information included in payroll and HR data and in reports.

Watson: We're increasingly seeing small businesses outsource administrative functions beyond payroll. This includes 401(k) administration, time and labor management, workers' compensation and employee screening. Outsourcing multiple functions can reduce the administrative workload of performing these functions in-house.

Baron: Actually, the trend we're seeing is that more accounting firms are deciding to offer payroll services to their clients themselves. The Internet is making it possible to make many payroll functions paperless and to achieve much faster turnaround. This results in more loyal and satisfied clients, matched with increased efficiency and cash flow for the accounting firm.

Lacerte: Likewise, we're observing greater adoption of in-house, on-demand payroll services by accounting professionals who previously chose to outsource payroll. Our customers have found that their previous concerns about payroll being tedious, time-consuming and unprofitable are no longer true.

Bhansali: Agreed. We believe more and more businesses will move to outsource their payroll services to accountants, who can offer them more personalized, customizable, professional service than service bureaus can.

What are the most common concerns or misconceptions that CPAs may have today about referring clients to outside payroll providers?

Watson: When selecting payroll partners, accountants should make sure the organization offers the same level of service and accuracy that the client has come to expect through the accountant relationship. Accounting professionals should seek service providers who are financially secure, with a sound

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business footprint in the industry. And of course, check their references carefully.

Bhansali: Many CPAs cling to the perception that they cannot offer payroll services profitably and hassle-free. This is no longer true. The sooner these CPAs understand today's realities and the opportunities that payroll now gives them, the better off they will be.

Turek: The most common misconception CPAs may have is about price versus value when referring clients to a national payroll provider. The value inherently lies in the CPA's freedom to concentrate on larger revenue-generating business while an expert handles the payroll, tax payment and HR functions.

Lacerte: CPAs who outsource client payroll have two primary misconceptions. First, they believe that payroll is too difficult and time-consuming to handle in-house. Second, CPAs sometimes believe that they cannot make a profit from in-house payroll. In our case, we offer accountants a wholesale pricing option of $14.99 per client per month, plus 25 cents for each employee per month past the first five. Accountants can charge their clients whatever price they like, thus creating a year-round source of profits.

Baron: I see two misconceptions about referring clients to national payroll providers. One is that the CPA firm cannot offer top-quality payroll services themselves, and two is that it is labor intensive to offer payroll services. While there may have been some truth to this in the past, advancements in technology have made it as easy today for accounting firms to offer full payroll services, including direct deposit for employees (even pay cards for un-banked employees), cafeteria type benefits, and private portals for employees to view pay stubs, W-2s and W-4s online and more.

Why are CPAs optimally positioned today to advise their clients on complex payroll and HR administration functions?

Baron: Research indicates that most small-business clients prefer their accountant to handle their payroll service. They view the accountant as a trusted adviser who can manage the complex requirements of a payroll system, allowing the client to focus on operating his or her business. When accountants provide payroll services, client satisfaction and loyalty increase dramatically. And the accounting firm experiences increased year-round cash flow and higher profits.

Watson: True. Today's small businesses are increasingly looking to their accounting professional for advice on all types of business functions – from tax and payroll to HR and employee retirement plans. Accounting professionals are finding that they have many resources, inside and outside their firms, available to help them service these needs. Today, service providers, software providers and resellers are tailoring offerings to accountants to help them assist their small-business clients.

> "Last decade's most important development – the Internet – and this decade's emerging development – the accountant-centric era – will impact the profession more profoundly than even the PC did."

Lacerte: Accountants are their clients' most trusted financial advisers and most clients expect a full-service relationship. Accountants who provide on-demand payroll differentiate themselves from competitors and open the door to other client services such as write-up and financial analysis, tax preparation, software consulting and financial planning.

Bhansali: Accountants already have a thorough understanding of their clients' businesses, and most CPAs already have a good knowledge of the prevailing federal, state and local reporting rules that govern payroll compliance for each client. Because of their training, it is much easier for CPAs to acquire any additional expertise that they might need.

Looking ahead over the next several years, what new products and services do you expect to be offering CPAs and their small- to medium-size clients?

Turek: Paperless employee pay products, employee screening and broader retirement services options for small businesses.

Lacerte: Our mission also is to make paper-based payroll obsolete. We'll continue to add electronic state functionality to all 50 states, more robust e-mail reminder functionality, enhanced accounting software exporting, MICR blank check printing, 1099 payments and co-branding of services.

Baron: Private, secure portal services so CPAs can have 24/7 online access to their clients' tax and accounting documents and services.

Are there any final message points that you would like our readers to take away from this roundtable discussion?

Turek: Paychex is proud to be the preferred payroll provider of the Paychex Partner Program from AICPA Business Solutions. We've expanded our offering through AICPA Business Solutions to include payroll services for larger, more complex businesses and 401(k) record- keeping services.

Baron: At Creative Solutions, we believe the cumulative impact of what we call the "Big Three" – Integration, Paperless and Web – will bring revolutionary changes to the accounting profession over the next several years. The combination of these technologies enables the accountant to provide a higher level of service to their clients, while at the same time producing dramatic increases in productivity and significant decreases in costs.

Lacerte: PayCycle is leading a paradigm shift in the payroll industry by offering accountants a robust, inexpensive and easy-to-use payroll solution for their clients. Traditionally, smaller businesses have been faced with the difficult choice of manually handling payroll themselves, with great risk of penalties for mistakes, or outsourcing payroll to a national payroll provider at great expense.

Watson: The accountant community has been and continues to be a valued partner for ADP. We are committed to providing accounting professionals with the tools and resources they need to serve the needs of their clients and grow in their profession.

> "Accountants are their clients' most trusted financial advisers and most clients expect a full-service relationship."

Bhansali: The most important development of the last decade – the Internet – and this decade's emerging development – the dawn of the accountant-centric era – will have a more profound impact on the profession than even the PC revolution has had. Accountants World believes that the sooner CPAs adapt to the new reality of this decade, the more they will profit from it. ■

What Today's CPAs Seek in Payroll and Benefits Solutions

Most are 'satisfied' with their vendors, but many exploring alternatives. Opportunities particularly ripe for local firms to help clients.

By Hank Berkowitz, AICPA Custom Media Solutions

As employee payroll, benefits and human resource functions become increasingly complex – and as workers continue to demand more of their employers' benefits administrative capabilities – CPAs are well-positioned to help clients streamline or offload selected HR chores quickly, securely and efficiently.

"Anything that would reduce the amount of time required to do this processing would be beneficial," says a senior partner of a midsize firm in Memphis, Tenn. "Even with outsourcing, too much time is spent picking up and putting down reports to make certain that all the information is correct when you have a variety of employee groups – salaried, contract, hourly – some direct deposit and some by check."

Assisting with client payroll and HR administration is a particularly ripe opportunity for CPAs in local-oriented firms according to a recent AICPA member poll. Nearly seven out of eight readers of the AICPA's CPA Insider™ weekly e-newsletter told us in a survey conducted by Bay Street Group, LLC that they think local CPA firms will be earning a "significant" portion of their revenue from payroll or benefits services to clients. By contrast, just 24 percent of respondents believe regional firms will be earning a significant portion of their revenue from payroll or benefits services and fewer than 6 percent of respondents think national firms will earn a hefty portion of revenue from this service line.

"Payroll processing is a growing service that will become an important revenue component for small- to midsize firms," notes one small-firm managing partner. "For too long this business has been given away to the national bureaus." Survey respondents were culled from a random cross-section of readers, representing all geographic regions and firm sizes.

Keep in mind that the notion of "help" comes in many sizes, flavors, complexities and price ranges when we're talking about payroll and HR solutions. The first decision CPAs must make is at the crossroads of "In-house" Street and "Outsource" Avenue.

In the in-house camp, you can stay with manual systems, you can install software to help you or you can turn to a Web-based solution. If you decide to seek help outside your client's organization, you can outsource the work to a payroll agency/service bureau, you can outsource it to another accounting firm or you can turn to a professional employer organization (PEO).

How your peers are tackling the challenge

Today, more than half (55%) of CPAs who help their clients with payroll and benefits solutions are using in-house software, according to the Bay Street research (see Figure 2). Nearly two in five respondents (39%) said that they outsource to payroll service bureaus, with the remainder turning to Web-based solutions, PEOs or other accounting firms. Surprisingly, nearly one in 10 respondents said that they still handle payroll manually, suggesting there is still a great deal of CPA outreach to be done by payroll solutions providers. "Our clientele is small companies that are not very Internet knowledgeable," says a small-firm partner, "so we still have a lot of payrolls submitted by paper, less than 96 hours before the day of payroll." *NOTE: Survey percentages exceed 100 because many respondents use multiple solutions for their clients.*

Although survey results (Figure 1) suggest CPAs are generally satisfied with their current payroll and benefits solutions – rating a 3.6 satisfaction level out of a possible 5.0 – nearly two in five respondents overall (39.6%) say they are "likely" or "very likely" to be considering new solutions in the next 12 to 18 months. Respondents in public accounting had the highest satisfaction levels with their payroll/benefits solutions. Small firms had greater satisfaction with their current solutions than do CPAs from medium and larger firms, according to the Bay Street survey.

"I would like to have complete integration with our practice management software and our general ledger" payroll and accounting package, notes the managing partner of a midsize firm in Charlotte, NC.

Figure 1

How satisfied are you with your current payroll and benefits system?

(rating on a scale of 1-5 with 5 being "completely satisfied")

ALL CPAs	3.60
Public Accounting	3.71
Business & Industry	3.49
Small Firms	3.69
Medium Firms	3.50
Large Firms	3.59

Source: Bay Street Group, LLC

Figure 2

Payroll/HR solutions CPAs are using and considering*

Solution	Using Now	Would Consider
In-house software	55%	45%
In-house Web based	7%	35%
Outsource to payroll agency	39%	34%
Outsource to PEO	3%	5%
In-house manually	7%	1%
Outsource to accounting firm	1%	4%

Source: Bay Street Group LLC

* Totals exceed 100% due to multiple responses

CPAs in midsize organizations (44.8%) are the most likely to be considering a new payroll/benefits solution; CPAs in small organizations (39.8%) are the second most likely to be considering a switch and CPAs in large organizations (35.6%) are the least likely, according to our research.

When survey respondents were asked to identify which type of payroll/HR solution they would consider switching to, the landscape changed (see Figure 2). As expected, the most frequent response was in-house software (45%), but 35 percent of respondents expressed interest in in-house Web-based solutions, 34 percent said they would consider outsourcing to a payroll service bureau. An additional 10 percent said they would consider either a PEO, a manual solution or outsourcing to an accounting firm. Again, the percentages exceed 100 due to multiple responses.

Despite CPAs' reputation for being highly cost-conscious, price is not the most important criteria they use when evaluating payroll and benefits solutions. As Figure 3 shows, "Ease of use" (92%) and the ability to keep current on tax rates and payroll regulations (70%) are factors more important to CPAs who responded to the Bay Street survey than the operating cost of the payroll system (64%). Customer service (61%) followed closely behind operating cost as a key criterion. The ability to integrate employee benefits such as retirement plans, health savings accounts and flexible spending accounts also appears to be more important to CPAs than the vendors' technical capabilities, installation ease or security/fraud prevention.

"Cost and the ability to integrate detailed data (hours/rates/etc.) into an accounting software package to develop labor efficiency reports," are the two most important criteria according to the CFO of a large East Coast company.

"Web-based solutions and outsourcing will be reviewed closer as companies move more toward cost containment," says a middle manager at a company with between 11 and 50 employees. "I'm happy with my payroll situation. I have remote access, which has enhanced accessibility while away from the office."

"I would like our payroll solution to have the ability to bridge back and forth from our accounting system," says a large-company CEO. See Figure 3 above to see how other CPAs rate the importance of payroll solutions criteria:

Figure 3

CPAs' most important issues in payroll/benefits solutions*

Criteria	% Consider "Important"
Ease of use	92%
Keeping abreast of tax rates and payroll regulations	70%
Operating cost	64%
Customer service/tech support	61%
Integrating 401(k) plan data	45%
Managing flex-spend and health savings accounts	39%
Ease of installation	38%
Security/fraud prevention	38%

Source: Bay Street Group LLC

* Totals exceed 100% due to multiple responses

About the Study

This AICPA Custom Media Solutions report was undertaken to analyze how knowledgeable and satisfied AICPA members are with payroll and HR solutions for their companies and clients. Nearly 500 members responded to a flight of online surveys conducted by Bay Street Group LLC in conjunction with the AICPA's CPA Insider™ e-newsletters in July of 2005. Their responses represented a cross-section of the AICPA membership. Respondents were invited to provide additional comments and were assured of confidentiality. No advertisers or sponsors contributed to the survey questions, deployment mechanism or tabulation process. Respondents received no premium or other incentive to complete the surveys, other than the opportunity to receive an advance copy of the summary results prior to being published.

This report was prepared expressly for the Journal of Accountancy by AICPA Custom Media Solutions, which is solely responsible for its content.

Hank Berkowitz is AICPA Director of Online Publishing & Business Development. hberkowitz@aicpa.org

The Payroll Payoff
Position your firm as an all-service provider.

BY SARAH E. PHELAN AND MICHAEL HAYES

Excerpted from Journal of Accountancy, March 2005

SARAH E. PHELAN, JD, is a New York-based attorney and writer. Ms. Phelan was formerly a senior manager with Deloitte & Touche and a technical manager in personal financial planning at the AICPA. MICHAEL HAYES is a senior editor on the JofA. Ms. Hayes is an employee of the AICPA and her views, as expressed in this article, do not necessarily reflect the views of the Institute. Official positions are determined through certain specific committee procedures, due process and deliberation.

Every business has to pay its staff and its taxes. Many CPAs are addressing those twin needs by offering to help their small business clients not just with taxes but also with the many chores that go into payroll processing, from after-the-fact tax filings to benefits administration.

A smart way to grow

"Payroll services are about three percent of my practice, but offering them is part of being a full-service accounting firm," says Daniel M. Ukestad, CPA, a Carmel, California, sole practitioner who does after-the-fact payroll for about a dozen small business clients. He provides those clients with tax and consulting services, not audits. He also does domestic-staff payroll for older individuals with household help.

At Faulk & Winkler LLC of Baton Rouge, Louisiana, principal Monica Waller is responsible for client accounting services (CAS). "Payroll services is a small part of our business, but it works hand in hand with CAS, including general ledger, financial statements, accounts payable and accounts receivable, tax and pension work," she says. When tax partner Denise Carvalho, CPA, sees a client who might benefit from payroll services, she brings Waller in to discuss how to help. The firm has handled payroll since 1984 but says improved technology has made it easier in the past five years. It's a good fit with services such as pension work that must be in a prescribed electronic format. "It has become a real selling point for pension administration clients to transfer their payroll to us," she says.

Principal Joseph Maloney, CPA, of four-partner firm Maloney, Reed, Scarpitti & Co. of Erie, Pennsylvania, says, "Payroll has provided about 10 percent of our business for 25 or 30 years." The firm handles the entire process for most payroll clients—prepares their checks, arranges for the deposits, and makes sure the clients' payroll taxes are paid on a timely basis and their quarterly and annual returns are correctly prepared and filed. Using a CPA firm offers them confidentiality and personalized service. "Clients like to deal with only one provider," he says. "They know the individual who answers the phone, and they can let us deal with changing tax rates and payroll laws."

Ukestad's small business clients prepare their own paychecks—some by hand—and use his services to make sure their tax records are correct and deposits are on time. "I educate them on how to prepare payroll and how and when to make the deposits," he says. He prefers that larger clients use a national provider. James Hayden, CPA, a Montvale, New Jersey sole practitioner with six staff members, says payroll represents about 10 percent of his firm's revenues. He refers clients with more than four employees to the same national payroll provider he has used for 25 years. "We can rely on their work and access reports online. If they make a mistake, they rectify it." Ilene Eisen, CPA, of ie Solutions in Monterey, California, also recommends national payroll providers to her clients for their broad capabilities. To help clients meet filing and deposit guidelines she suggests a national payroll provider "since they can download the information into their accounting records easily," she says.

Which type of payroll provider is best for your client?

What you recommend to clients depends on their sophistication and what you perceive they need. Big payroll companies offer a large number of Internet-based payroll-processing services and products, and employ experts to track accounting intricacies and ensure clients are in compliance with local and federal tax laws.

Many payroll providers offer such simple user interfaces that "CPAs may have a hard time convincing clients to use their help," says Steven Bragg, CPA and CFO of Premier Data, in Englewood, Colorado. His payroll provider can process payroll through a Web browser interface

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and also permits complete integration with a centralized 401(k) investment module, which automatically makes 401(k) deductions from employee paychecks and eliminates the need for separate tax filings, administration reports and payments, he says.

Managing flexible spending accounts (FSAs) is another possibility with national payroll providers. Services include integrating FSA deductions with payroll and offering employees the use of debit cards from which to pay down their FSA balances.

Some CPA firms provide payroll compliance auditing services, including retirement plans, cafeteria benefit plans and health plans, to trustees of employee benefit plans. These services are valuable to benefits trustees—who have a fiduciary duty to ensure employee contributions to the plans are correct and timely—because the rules are complex and overlapping. Engagements focus on checking an employer's payroll records for compliance with IRS and state withholding and Department of Labor rules.

CPAs who want to offer more payroll services will find there's an abundance of software and Web-based providers to choose from. Start-up costs for software and training start at $1,500 but can go much higher. Firms can control staff costs by hiring $15- to $20-per-hour people to do data entry.

Engaging an outside payroll provider.

- ☐ Assess your firm's capacity for additional recurring payroll services.
- ☐ Determine which clients are free of independence conflicts for payroll engagements.
- ☐ To gauge the market, ask your clients what parts of handling payroll they find burdensome.
- ☐ Research payroll products' capabilities carefully to find a good match for clients' requirements and your work systems.
- ☐ Let clients know they'll incur additional charges if they make late changes.
- ☐ Stay current on the law.
- ☐ Cross-train your staff to ensure the firm has at least two people who know how to do a client's payroll.
- ☐ Perform background checks on potential hires in the payroll operation to minimize the potential for fraud.

Payroll Services: Independence and Service Issues for CPAs

Because payroll services are a non-attest service, providing them to a client can mar a CPA's independence. For engagements entered into after 2003 (with exceptions for some completed before 2005), practitioners must pay careful attention to a revision to Ethics Interpretation 101-3, "Performance of Nonattest Services."

Make sure clients fully understand the services they are to receive. In your engagement letter, describe what your firm will and will not do, the limits to the service, the information the firm will need to prepare the client's payroll properly and the time constraints involved. Document in writing your understanding with the client regarding:

Objectives of the engagement.
Services to be performed.
Client's acceptance of its responsibilities.
The firm's responsibilities.
Any limitations on the engagement.

Firms need to be alert to independence issues, says Joseph Maloney, CPA, of four-partner firm Maloney, Reed, Scarpitti & Co., Erie, Pennsylvania: "Our involvement in our clients' payroll process is great. But when we have signature authorization over the client's checking account or are involved in the management of employee payroll information, we have had to disclose the fact we are not independent in some cases." ■

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Tax Matters

TAX CASES

Divorce, Pensions and Community Property

The Internal Revenue Code has relatively clear rules detailing the taxation of normal payments made on account of divorce. How these rules apply to pension plan distributions has been explained in several court cases. Recently, the Tax Court had to determine the taxation of a payment in divorce that was related to a pension plan in a community property state.

John Michael Dunkin was employed by the city of Los Angeles. On May 19, 1989, he became eligible to receive a pension, but decided not to retire. He was divorced on August 19, 1997. The divorce decree said John's former spouse was entitled to half of his earned pension—at that point, $2,072. Since John did not retire on that date, the decree required him to pay his former spouse $2,072 monthly until he did retire. In 2000, he made the payments which totaled $25,511 and deducted this amount as alimony on his 2000 tax return. The IRS objected to the deduction.

Result. For the taxpayer. It has been long established that state law determines a person's right to income and property and federal law determines the taxation of those rights. California law determined the $25,511 payment had to be made. The question, therefore, was the appropriate taxation of that payment.

In prior cases the Tax Court had ruled a former spouse was liable for the taxes due on her receipt of pension funds resulting from community property law. Likewise, she was liable if she received a lump-sum distribution from a pension plan. The IRS argued that these cases did not apply in this case because Dunkin had not started to receive his pension. The Tax Court rejected this argument. Prior cases had held the taxation of a former spouse was not determined based on the form of the payments. Dunkin's former spouse received the payment from him because she was entitled to receive the pension regardless of the fact that he had not retired. Therefore the court was able to disregard the form of payment as meaningless.

The IRS then argued that taxing the former spouse would violate the assignment-of-income doctrine. The Tax Court rejected this argument on the grounds that under California community property law the former spouse earned the income and did not simply collect income earned by her former husband.

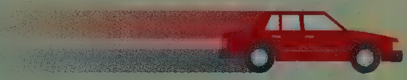
The government's final argument was that the deduction was not allowed because the income was nontaxable to the former spouse since it had not come from the pension plan and had not, therefore, been covered by the rules governing such distributions. The fact that the code specifies how pension plan distributions should be taxed does not mean other payments related to pensions are nontaxable. Likewise, that a qualified domestic relations order directing the pension to pay the former spouse did not exist was immaterial. The former spouse had received a payment based on her share of a pension plan, and the court said it was taxable to her and deductible by her former husband if he had been ordered to make the payment.

The taxation of payment made on account of a divorce can be complicated. It is important, therefore, to carefully evaluate the true nature of the payment and not rely on the label or source of payment to determine the taxation.

■ *John Michael Dunkin* v. *Commissioner*, 124 TC no. 10.

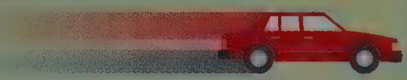
Wheels Deals

The standard mileage rates for computing the deductible costs of operating an automobile, van, pickup or panel truck for 2005 are



40.5¢ per business mile driven, up from 37.5¢ in 2004.

15¢ a mile when computing deductible medical or moving expenses, up from 14¢.



14¢ a mile when providing services to a charitable organization—the same as last year.

Source: IRS, **www.irs.gov**.

GRAPHIC: KELLEY GRAPHICS

Prepared by Edward J. Schnee, CPA, PhD, *Hugh Culverhouse Professor of Accounting and director, MTA program, Culverhouse School of Accountancy, University of Alabama, Tuscaloosa.*

Differentiating Debt From Equity

A tax deduction is permitted for interest paid on business indebtedness. When a closely held corporation borrows money from its shareholders, the loans must be examined carefully to determine whether the transfer is a bona fide loan or a disguised capital contribution. The economics of the transfer must be examined to determine whether an unrelated lender would have entered into a similar agreement. When doubt exists, the taxpayer must prove the transfers represent debt by showing there is an unconditional obligation to repay the amounts transferred. *(continued on page 114)*

Indmar Products Co. is a closely held corporation whose shares are owned by members of the same family. From 1987 to 2000 the owners transferred money to the corporation, which treated the transfers as loans. Indmar made monthly payments to the shareholders equal to 10% of the amounts transferred, which it deducted as interest payments. The shareholders included the amounts received as interest income on their tax returns. The transfers were not immediately documented and never were secured. Repayments of "principal" were made when demanded by shareholders based on their financial needs rather than on a predetermined repayment schedule.

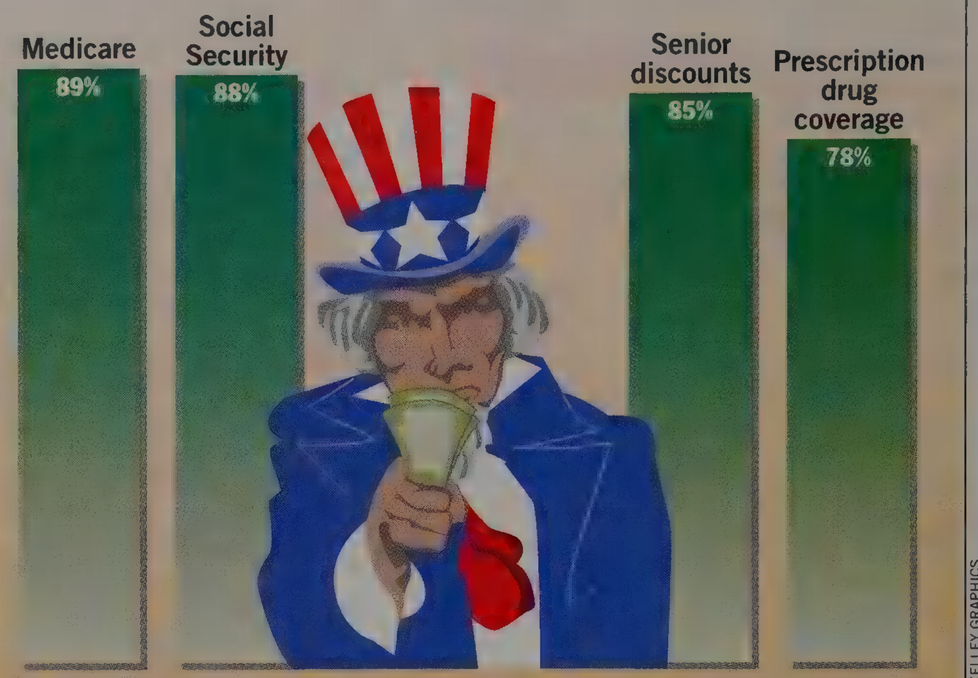
The shareholders treated the transfers as demand notes to avoid paying Tennessee income tax on the interest since interest on notes maturing within six months in that state is not subject to tax. Indmar, however, reported the demand notes as long-term liabilities on its financial statements to ensure its current ratio complied with the requirements of its loan agreements. To support the long-term liability classification, the company had its shareholders sign waivers stating they would not demand repayment of principal during the next 12-month period. Nonetheless, they demanded numerous repayments, and payments were made to them. The IRS disallowed the interest deductions for 1998 thru 2000, arguing that the transfers were capital contributions rather than loans. The taxpayer petitioned the Tax Court for relief.

Result. For the IRS. The Tax Court concluded the arrangement between Indmar and its shareholders would not occur between two unrelated parties in an arm's-length transaction since the taxpayer and its shareholders altered the facts whenever it suited their needs. Furthermore, the 10% return paid to the shareholders was higher than the prime rate during the entire period in question.

The court also applied a list of 11 factors that the Sixth Circuit Court of Appeals had previously used (*Roth Steel Tube Company* v. *Commissioner,* 800 F2d 625) to determine whether transfers made to a corporation represented debt or equity. The court determined the following factors showed debt treatment for the transfers in *Indmar*: (1) External financing was available to the corporation during the entire period; (2) Indmar was adequately capitalized; (3) the transfers were not subordinated to all creditors; (4) the transfers were not in proportion to the shareholders' ownership interests; and (5) the transfers were reported as debt by the corporation, but the related monthly payments to the shareholders were reported by them as interest income. *(continued on page 116)*

Uncle Sam, Pay Up

Facing an uncertain economic future, baby boomers on the verge of retirement felt they "probably" or "definitely" should receive full benefits from

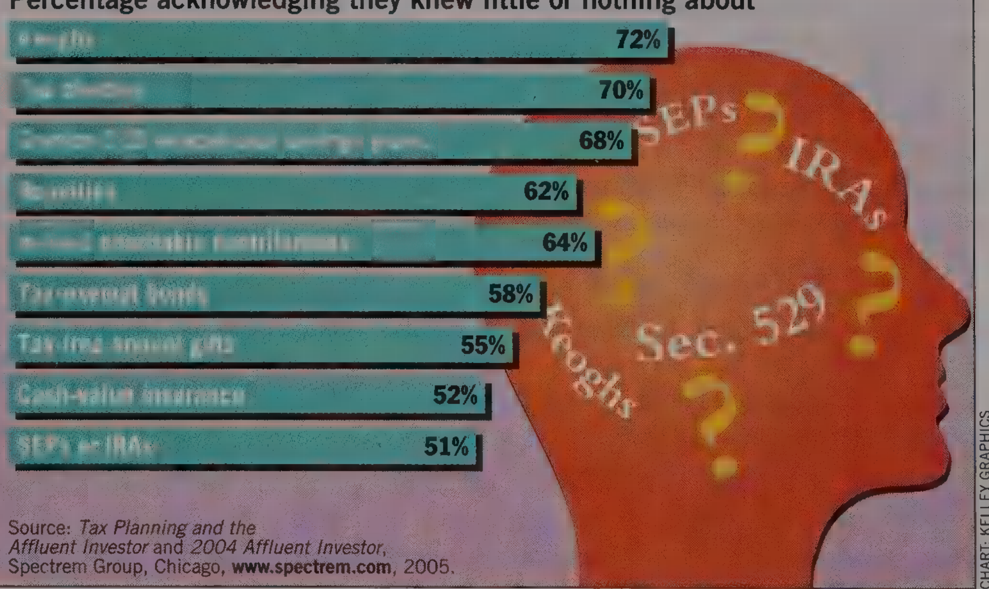


Source: *The Merrill Lynch New Retirement Survey* of 3,448 baby boomers, Merrill Lynch, New York, **www.ml.com**, 2004.

An Honest Nation

Most investors have little or no knowledge of tax-reduction strategies.

Percentage acknowledging they knew little or nothing about



Source: *Tax Planning and the Affluent Investor* and *2004 Affluent Investor*, Spectrem Group, Chicago, **www.spectrem.com**, 2005.

The Tax Court, however, also determined other factors outlined in *Roth Steel Tube* meant the transfers represented equity. The notes had no fixed maturity date or obligation to repay; the transfers were unsecured; no sinking fund had been established by Indmar to repay the "loans"; and the source of repayment of the notes, based on the testimony of a major shareholder, was corporate profits.

The court also noted Indmar never had paid a dividend during the years in question. Thus it concluded the factors suggesting equity treatment outweighed those showing debt treatment. This finding, combined with the court's previous determination that the transfers were unlikely to occur between unrelated parties, led the court to conclude that the transfers were equity. Therefore it denied the interest deductions.

Roth Steel Tube provides a clear delineation of the factors that determine whether transfers to corporations are debt or equity. When applying these to a particular factual situation, no one factor is controlling.

■ *Indmar Products Co., Inc.*, TC Memo 2005-32.

Prepared by Charles J. Reichert, CPA, *professor of accounting, University of Wisconsin, Superior.*

When to Write Off Bad Debt

Determining whether a debt has become worthless always is a question of fact which requires consideration of all pertinent evidence—including the debtor's financial condition and the value of any security for the debt. A recent Tax Court decision focused on some key factors in making such a determination.

Maurice E. John Jr. was an eye surgeon and sole owner of John Eye Clinic Inc., a professional corporation. In 1987, the taxpayer hired John Evans to serve as the clinic's business manager. Because of Evans' outstanding performance, the clinic became significantly more successful and profitable.

In 1991, as shrinking Medicare reimbursements reduced the clinic's income, Evans suggested to John they diversify by offering management services to other clinics for a fee. In addition to the U.S. market, Evans saw economic opportunities in Russia as the Soviet bloc began to collapse. John agreed to provide the necessary capital while Evans was to manage and develop the businesses. For this Evans was to receive a 50% ownership interest.

Between 1992 and 1995 John advanced about $2.5 million to the ventures, while Evans made no capital contributions. John determined that Evans owed him $491,054 for his share of the investment. Although John never entered into a promissory note with Evans, he had always expected Evans to "work off" his share of the capital contributions if the ventures ever failed.

In 1995, due to a lack of profitability, John instructed Evans to stop making investments in Russia. Evans, however, continued to do so. John fired him and filed suit to recover Evans' share of capital in January 1996. Although the legal action was settled out of court, John claimed a bad debt deduction in the amount of $491,054 on his 1995 tax return. The IRS challenged the deduction.

Result. For the IRS. According to the Tax Court, the debt did not become wholly worthless in the year in which the taxpayer claimed the deduction. While a taxpayer need not be an "incorrigible optimist" with respect to the value of a debt, he or she may not substantiate the worthlessness of a debt with his or her pessimism. Thus, a taxpayer must provide sufficient evidence to demonstrate a debt is indeed worthless and not merely surmise any collection effort would be futile. Consequently, the Tax Court focused on three main issues: Can a job termination render a debt worthless? Does the loan have future value? Were reasonable steps taken to collect the debt?

There is no case law that shows job termination leads to loan worthlessness. In fact, the converse has been held true. In *Southwestern Life Insurance*, the Fifth Circuit Court of Appeals denied a bad debt deduction for un-

paid loans to employees who simply left the company. There was no relationship between the termination and the worthlessness of the loans. Therefore, in the case at hand, because the repayment of the advances was not conditioned on Evans' continued employment, the Tax Court held the termination was insufficient to render the debt worthless.

On the second question, John argued that because Evans was insolvent and owned no significant assets, the loan must be worthless. But the Tax Court, as well as the Seventh Circuit, has long held that insolvency does not, of itself, demonstrate worthlessness. Furthermore, it is incumbent upon the taxpayer to show that the worthless security lacks "future value." In making this determination, the courts take into consideration several factors, such as the debtor's age, educational status and future earnings potential. Because Evans was in his forties, had an MBA from Vanderbilt University and quickly found new employment after termination from the clinic, the court held the loan had, at the very least, some future value.

Finally, a taxpayer must exhaust all reasonable means of collecting the debt in order to prove its worthlessness. There was no evidence John ever took affirmative steps, other than filing the lawsuit, to enforce collection of the amounts owed him by Evans. Moreover, his lawsuit was filed primarily to compel Evans to cease activities and not to collect a debt. The court further rejected John's rebuttal that he did not want to destroy Evans financially, just to prove the debt was worthless. Based on these considerations, the Tax Court held that reasonable steps were not taken to collect the debt.

■ *Maurice E. John Jr.* v. *Commissioner*, TC Memo 2004-257, November 9, 2004.

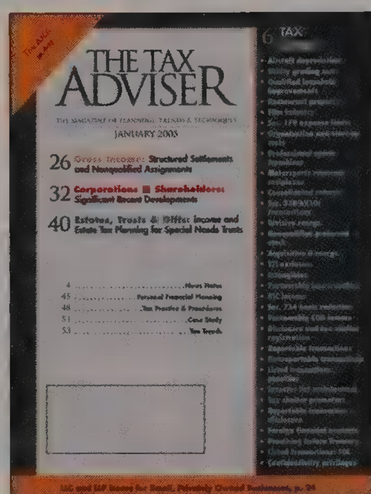
Prepared by Steven C. Thompson, CPA, PhD, *associate professor of accounting, Texas State University, San Marcos, and* David W. LaRue, PhD, *associate professor of accounting, University of Virginia, Charlottesville.* ■

Safe harbors for taxpayers not meeting the use/occupancy rules.

From The Tax Adviser:

Reduced Exclusion Possible in Home Sale

In today's hot housing market, many taxpayers are selling their residences and moving. The tax code aids this endeavor: Under IRC section 121(a) and (b), taxpayers can exclude up to $250,000 of the gain on the sale or exchange of a home ($500,000 for certain joint returns) if they (1) owned and used the property as a principal residence for at least two of the previous five years ending on the sale or exchange date and (2) have not used the exclusion in the past two years. For taxpayers not meeting these strict requirements, a reduced exclusion may be available if safe harbors are met; CPAs should become familiar with these rules.



OVERVIEW

Taxpayers not meeting the strict occupancy and use requirements described above still may qualify for a reduced maximum exclusion if the residence sale or exchange was due to a change in place of employment, health or unforeseen circumstances; final regulations issued in 2004 explain how and when sellers may qualify and provide safe harbors. Even if a safe harbor is not met, taxpayers may qualify if they can establish, under regulations section 1.121-3(b), that the sale was "primarily related" to the aforementioned reasons.

EMPLOYMENT

Under regulations section 1.121-3(c)(1) and (2), a sale or exchange by reason of a change in place of employment occurs when the taxpayer owns and uses the property as a principal residence and the qualified individual's (QI's) new place of employment is at least 50 miles farther from the residence sold or exchanged than was the former place of employment. If there was no former place of employment, the distance between the QI's new job and the residence sold or exchanged must be at least 50 miles. The regulations define *employment* and *QI* for this purpose.

HEALTH

Under regulations section 1.121-3(d), a sale or exchange by reason of health occurs when it allows a QI to obtain, provide or facilitate the diagnosis, cure, mitigation or treatment of disease, illness or injury, or to obtain or provide medical or personal care for a QI suffering from a disease, illness or injury. While a sale or exchange merely for general health or well-being does not qualify, regulations section 1.121-3(d)(2) states a sale or exchange resulting from a physician's recommendation (as defined in IRC section 213(d)(4)) does.

UNFORESEEN CIRCUMSTANCES

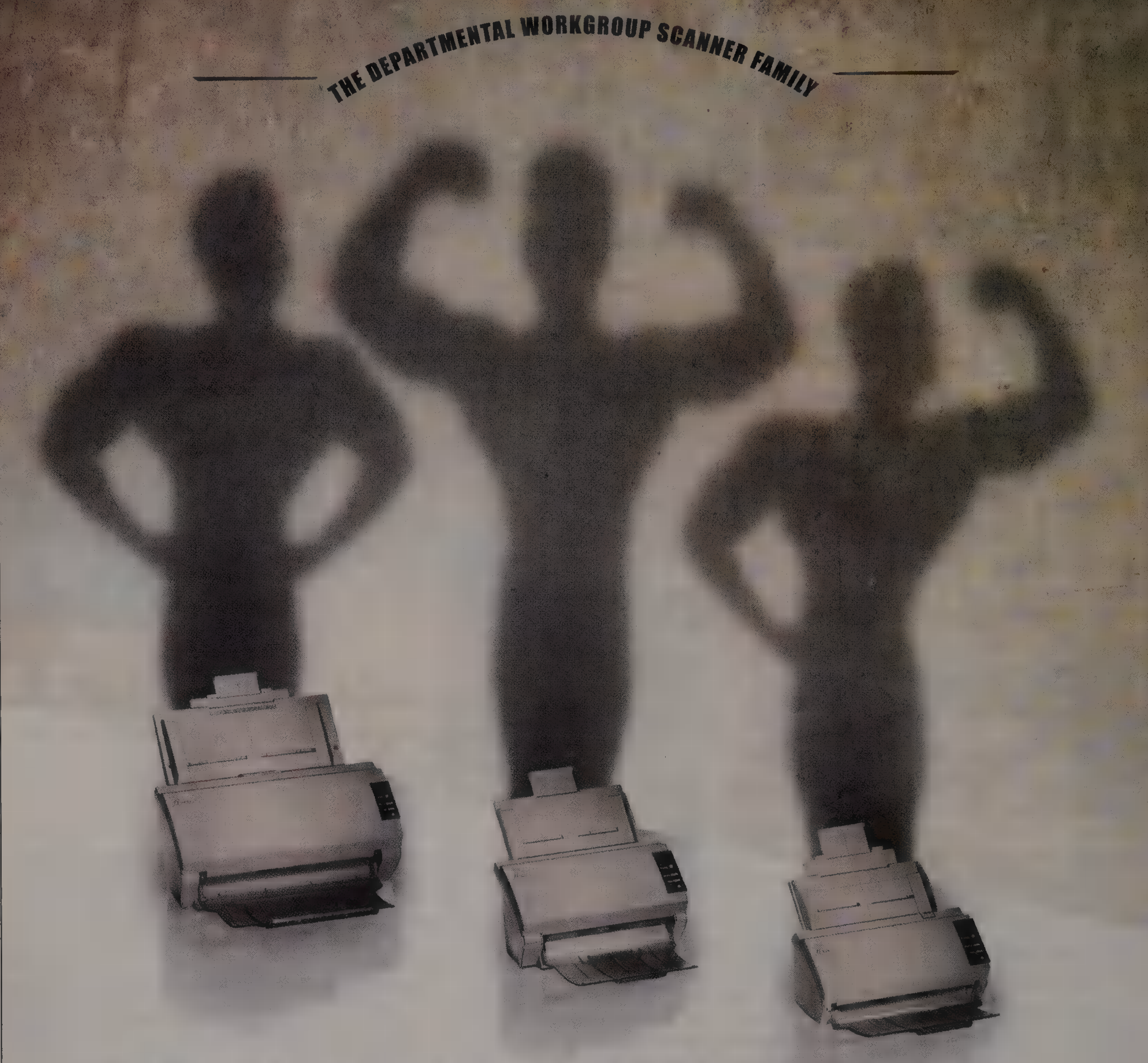
Regulations section 1.121-3(e) allows a reduced exclusion if the primary reason for the sale or exchange is the occurrence of unforeseen circumstances, defined as an event that the taxpayer could not reasonably have anticipated before purchasing and occupying a residence. Regulations section 1.121-3(e)(2) lists specific-event safe harbors that must occur while the taxpayer owned and used the residence.

CONCLUSION

The final regulations on the sale or exchange of a principal residence allow taxpayers a reduced gain exclusion amount if certain requirements are met. For more information, see the Tax Clinic, edited by Frank O'Connell, Jr., in the September 2005 issue of *The Tax Adviser*.

—*Lesli S. Laffie, editor*
The Tax Adviser

Notice to readers: Members of the AICPA tax section may subscribe to *The Tax Adviser* at a reduced price. Contact Judy Smith at 202-434-9270 for a subscription to the magazine or to become a member of the tax section.



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Technology Q&A

When to use .rtf…Big changes coming…More Shift key functions…
Identify Excel cells containing formulas…Access function keys…Shortcuts

BY STANLEY ZAROWIN

Key to Instructions

To help readers follow the instructions in this article, we use two different typefaces:

- **Boldface type** is used to identify the names of icons, agendas and URLs.
- Sans serif type shows commands and instructions users should type into the computer and the names of files.

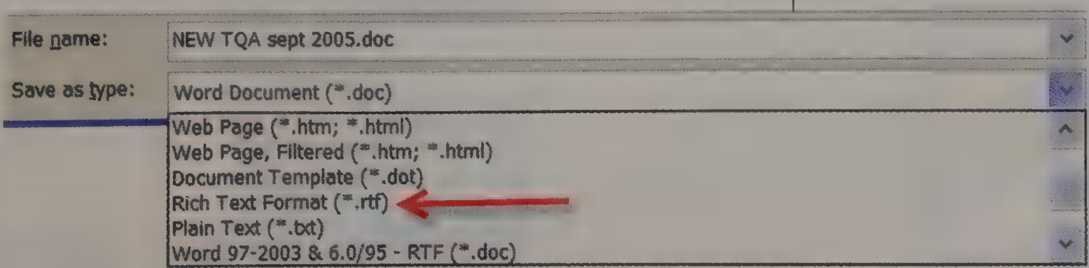
WHEN TO USE .RTF

Q. Whenever I click on **Save As** to save a Word document, I'm presented with many choices. I usually click on .doc, the default Word format. But every now and then I receive a file from a colleague that's been saved as .rtf, which is one of the **Save As** options. What's the difference?

A. The extension .rtf, which stands for **Rich Text Format**, maintains a document's formatting. Use .rtf (see screenshot below) if you don't know what version of Word your recipients have or whether they have Word or even Windows.

In my view the biggest advantage of .rtf is that it doesn't retain any imbedded macros, which makes it immune from catching and spreading viruses.

The other useful format is .txt, shorthand for **Plain Text**, which saves just the text in the document with no formatting. If you need to make a document as small as possible to transmit it faster over the Internet and formatting is not important, save it as .txt.



BIG CHANGES COMING

Q. Ounce for ounce, my cell phone and personal digital assistant (PDA) are more powerful and technologically advanced than my laptop, and they cost a lot less. Why are laptops so far behind the technology times?

A. The reason for the gap can be summed up this way: Last year consumers bought 700 million cell phones but only 50 million laptops. On top of that, phones and some PDAs generate big wireless connection fees. Because the potential profits from them far outstrip those from laptops, they get more attention from manufacturers.

But that's beginning to change. Here are some advances for laptops coming down the pike:

- ***Always-on small screens.*** Tomorrow's laptops will mimic the clamshell-style cell phones, which have a second, smaller screen on the outside that displays basic information such as time, date, caller identification and connection accessibility.
- ***Small laptops with phones.*** In the next year or two, we should begin to see ultrasmall laptops that have built-in cell phones.
- ***Touch-screen laptops.*** Longhorn, the code name for Microsoft's next operating system, will be able to handle inputs from a stylus or finger à la tablet PCs.
- ***Better battery monitors.*** Those electricity-reserve gauges on today's laptops are useless; they tell you 20 minutes of power remain when your laptop's about to black out or report no power is left when you have an hour in reserve. Late this year or early next, expect to see gauges that have an accuracy within 1%.

While we're on the subject, here are some other advances we'll start seeing in all computers:

- ***Less reliance on disk drives.*** Microsoft is urging laptop and desktop makers to add power-efficient flash memory drives to store often-used programs. Less reliance

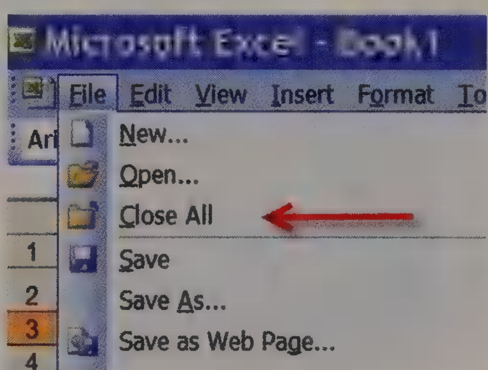
on spinning power-hungry hard drives will shorten computers' start-up time—eventually to nearly instantly.

■ *Dual chips that run faster.* Manufacturers of computers' central processing chips—the computer's brain—are introducing a new design that packages together two chips, each running independently of the other. The chips divide the processing of a command between them, each solving part of it, and then forward the completed solution. This parallel processing results in a much faster computer. The dual chips are being installed in high-power server computers now and in a year will be introduced in all other ones.

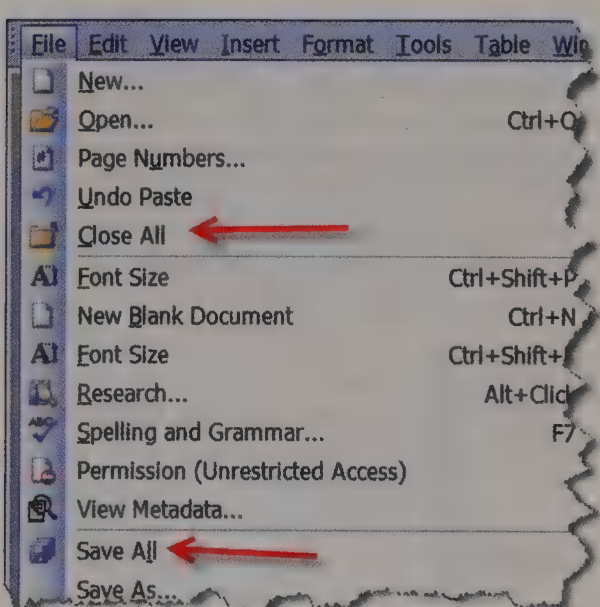
MORE SHIFT KEY FUNCTIONS

Q. Once when I finished working in Excel and had a bunch of open files, I clicked on the **File** button to save a file, and lo and behold, saw the menu choice **Close All**. Wow, what a time-saver! But try as I might, I can't get the **File** button to display **Close All** again. Any ideas?

A. You must have accidentally held down the Shift key when you clicked on **File**. When you do that, **Close** changes to **Close All** (see screenshot below).



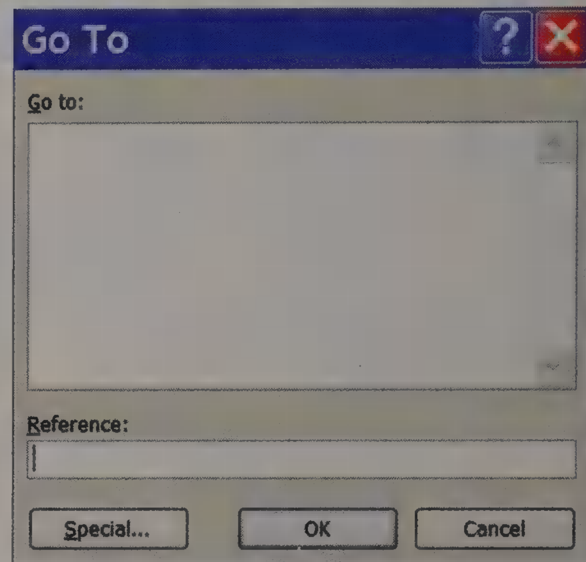
Bonus: In Word, when you hold down the Shift key and click on **File**, **Save** changes to **Save All** (see screenshot below).



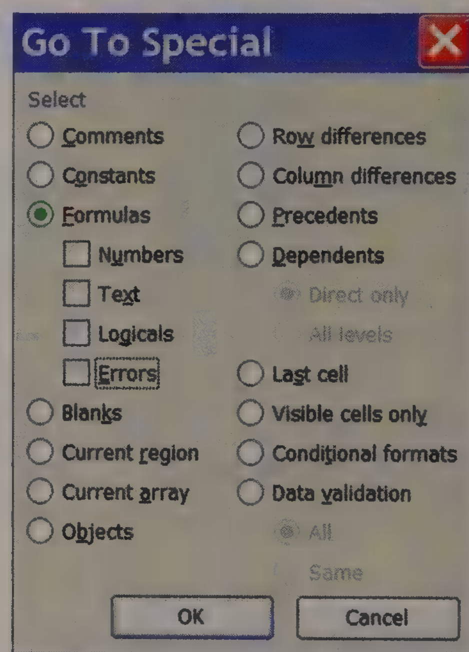
IDENTIFY EXCEL CELLS CONTAINING FORMULAS

Q. Is there a way to command Excel to highlight all the cells in a worksheet that contains formulas?

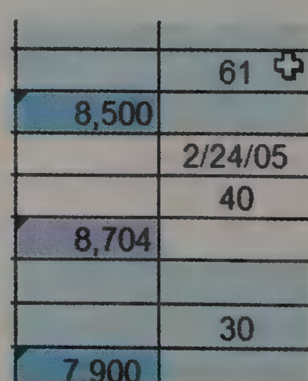
A. Sure. Just click on **Edit**, **Go To** and then **Special**, which is at the bottom of the screen.



That opens the **Go To Special** screen (see screenshot below). Click on **Formulas**.

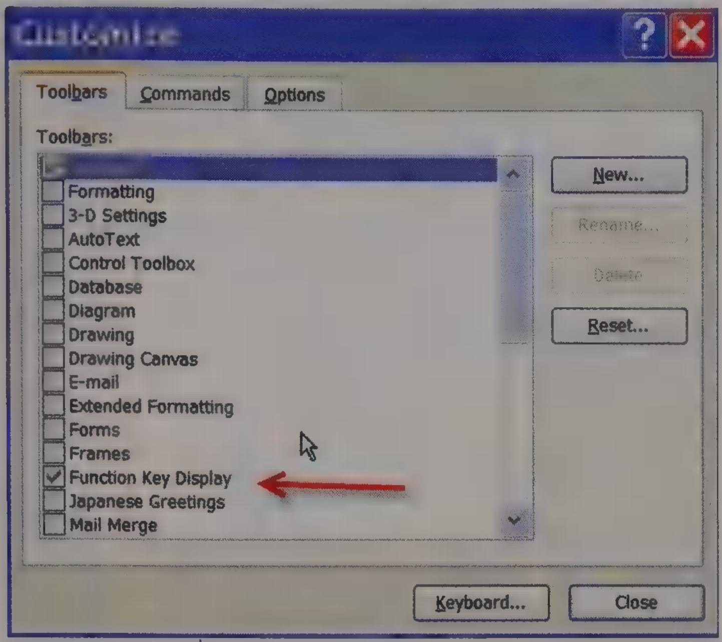


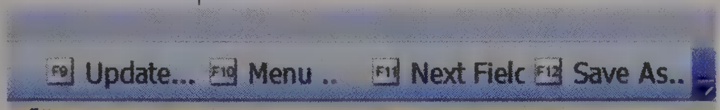
When you click on **OK**, the cells that contain formulas will be highlighted in dark blue and look like this:



(continued on page 125)

ACCESS FUNCTION KEYS





Q. Ctrl+F3, Shift+A5…I just can't bother to memorize all those shortcuts. Is there an easy way to access them?

A. What you want to do is create a handy screen display that shows all the shortcut function keys available at the moment, depending on what you are doing at that time in that application. Interestingly, Word can do that, yet for some reason Microsoft hides that function and gives you no hint where to find it. Even if you access **Help** (F1), there's no indication the tool exists.

To get it, go to **Tools**, **Customize**, click on the **Toolbar** tag and cursor down to **Function Key Display** (see screenshot). Check the box next to it and click on **Close**.

When you return to Word, you'll see a toolbar at the bottom of your screen that looks like the second screenshot above. To evoke the displayed commands, click on an icon or press one of the function keys.

As you work along in Word, you'll notice from time to time the assortment of function keys will change depending on what you're doing.

SHORTCUTS

Outlook navigation shortcuts:
Switch to

- Inbox: Ctrl+Shift+I.
- Mail: Ctrl+1.
- Calendar: Ctrl+2.
- Contacts: Ctrl+3.
- Tasks: Ctrl+4.
- Notes: Ctrl+5.

STANLEY ZAROWIN, a former *JofA* senior editor, is now a contributing editor to the magazine. His e-mail address is zarowin@mindspring.com.

Do you have technology questions for this column? Or, after reading an answer, do you have a better solution? Send them to contributing editor Stanley Zarowin via e-mail at zarowin@mindspring.com or regular mail at the *Journal of Accountancy*, 201 Plaza Three, Harborside Financial Center, Jersey City, NJ 07311-3881.

Because of the volume of mail, we regret we cannot individually answer submitted questions. However, if a reader's question has broad interest, we will answer it in a Technology Q&A column.

On occasion you may find you cannot implement a function I describe in this column. More often than not it's because not all functions work in every operating system or application. I try to test everything in the 2000 and XP editions of Windows and Office. It's virtually impossible to test them in all editions and it's equally difficult to find out which editions are incompatible with a function. I apologize for the inconvenience.

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Exposure Drafts Outstanding

(This list was compiled as of August 1, 2005. For exposure drafts issued after that date, consult *The CPA Letter*. *Note:* The policy for updating the list of exposure drafts is that a document should remain on the list until a final document has been issued or the project has been dropped. However, no comments will be received after the comments deadline has expired. The list is not all-inclusive but is intended to present the exposure drafts of particular interest to professional accountants.)

Issue Date	Title or Description	Comment Deadline
FASB		
7/14/05	**Accounting for Uncertain Tax Positions—an interpretation of FASB Statement No. 109**	**9/12/05**
6/30/05	Business Combinations—a replacement of FASB Statement No. 141	10/28/05
6/30/05	Consolidated Financial Statements, Including Accounting and Reporting of Noncontrolling Interests in Subsidiaries—a replacement of ARB No. 51	10/28/05
4/28/05	The Hierarchy of Generally Accepted Accounting Principles	6/27/05
6/23/04	Fair Value Measurements	9/7/04
12/15/03	Earnings per Share—an amendment of FASB Statement No. 128	4/13/04
6/10/03	Qualifying Special-Purpose Entities and Isolation of Transferred Assets—an amendment of FASB Statement No. 140	7/31/03
AcSEC (AICPA)		
11/29/04	Proposed Statement of Position, Accounting by Insurance Enterprises for Deferred Acquisition Costs on Internal Replacements	1/7/05
6/19/03	Proposed Statement of Position, Allowance for Credit Losses	9/19/03
12/17/02	Proposed Statement of Position, Clarification of the Scope of the Audit and Accounting Guide Audits of Investment Companies and Accounting by Parent Companies and Equity Method Investors for Investment in Investment Companies	3/31/03
ASB (AICPA)		
8/15/05	**Proposed Statement on Auditing Standards: Communication of Internal Control Related Matters Noted in an Audit—to supersede Statement on Auditing Standards No. 60, *Communication of Internal Control Related Matters Noted in an Audit***	**10/15/05**
6/15/05	Proposed Statement on Auditing Standards: Amendment to "Due Professional Care in the Performance of Work" of Statement on Auditing Standards No. 1, *Codification of Auditing Standards and Procedures*; Amendment to Statement on Auditing Standards No. 95, *Generally Accepted Auditing Standards*; Audit Evidence; Audit Risk and Materiality in Conducting an Audit; Planning and Supervision; Understanding the Entity and Its Environment and Assessing the Risks of Material Misstatement; Performing Audit Procedures in Response to Assessed Risks and Evaluating the Audit Evidence Obtained; *and* Amendment to Statement on Auditing Standards No. 39, *Audit Sampling*	8/15/05
5/9/05	Proposed Statement on Auditing Standards: Amendment to Statement on Auditing Standards No. 69, *The Meaning of* Present Fairly in Conformity with Generally Accepted Accounting Principles, for Nongovernmental Entities	6/27/05

*New additions appear in **bold** type.*

Issue Date	Title or Description	Comment Deadline
3/2/05	Proposed Statement on Auditing Standards: Defining Professional Requirements in Statements on Auditing Standards and Proposed Statement on Standards for Attestation Engagements: Defining Professional Requirements in Statements on Standards for Attestation Engagements	5/15/05
1/12/05	Proposed Statement on Auditing Standards: Audit Documentation	5/15/05
3/18/03	Proposed Statement on Auditing Standards, Communication of Internal Control Related Matters Noted in an Audit	5/30/03
3/18/03	Proposed Statements on Auditing Standards and Statement on Standards for Attestation Engagements Related to Internal Control: Auditing an Entity's Internal Control Over Financial Reporting in Conjunction With the Financial Statement Audit; Amendment to Statement on Auditing Standards No. 100, Interim Financial Information; and Reporting on an Entity's Internal Control over Financial Reporting*	5/15/03
OTHER (AICPA)		
3/30/05	**Proposed Statement on Standards for Valuation Services: Valuation of a Business, Business Ownership Interest, Security, or Intangible Asset**	**9/30/05**
6/17/05	Omnibus Proposal of Professional Ethics Division Interpretations and Rulings	8/16/05
4/18/05	Proposal of Professional Ethics Division Interpretations and Rulings	6/17/05
9/20/04	XBRL US Financial Reporting Taxonomy Framework	11/19/04
11/15/02	Proposed Tax Standards Interpretation 1-2, "Tax Planning," of Statement on Standards for Tax Services No. 1, *Tax Return Positions*	4/30/03
11/1/01	AICPA/NASBA Uniform Accountancy Act and Uniform Accountancy Act Rules	12/31/01
3/7/01	Statement on Standards for Continuing Professional Education Programs	8/1/01
SEC		
4/15/04	Use of Form S-8 and Form 8-K by Shell Companies; Release No. 34-49566	6/7/04
3/11/04	First-Time Application of International Financial Reporting Standards; Release Nos.: 33-8397; 34-49403; International Series Release No. 1274 (See Correction 3/18/04; Release Nos. 33-8397A; 34-49403A; International Series Release No. 1274A)	4/19/04
6/26/02	Framework for Enhancing the Quality of Financial Information Through Improvement of Oversight of the Auditing Process; Release Nos. 33-8109; 34-46120; 35-27543; IA-2039; IC-25624	9/3/02
5/10/02	Disclosure in Management's Discussion and Analysis about the Application of Critical Accounting Policies (Release Nos. 33-8098; 34-45907)	7/19/02

*This exposure draft has been submitted to the Public Company Accounting Oversight Board for its consideration as auditing and attestation standards.

EXPOSURE DRAFTS OUTSTANDING

Issue Date	Title or Description	Comment Deadline
4/12/02	Form 8-K Disclosure of Certain Management Transactions; Release No. 33-8090	6/24/02
4/12/02	Form 8-K Disclosure of Certain Management Transactions; Release No. 34-45742	6/24/02
2/18/00	SEC Concept Release: International Accounting Standards	5/23/00
1/21/00	Supplementary Financial Information	4/17/00
GASB		
3/25/05	Accounting and Financial Reporting for Pollution Remediation Obligations (preliminary views)	6/24/05
IFAC		
4/15/05	Proposed International Education Standard for Professional Accountants, "Competence Requirements for Audit Professionals"	7/15/05
3/22/05	Proposed International Standard on Auditing 600 (Revised), "The Audit of Group Financial Statements"	7/31/05
3/22/05	Proposed ISA 260 (Revised), "The Auditor's Communication with Those Charged with Governance"	7/31/05
3/22/05	Proposed ISA 705 and ISA 706, "Modifications to the Opinion in the Independent Auditor's Report and Emphasis of Matter Paragraphs and Other Matters Paragraphs in the Independent Auditor's Report"	7/31/05
2/4/05	Proposed International Public Sector Accounting Standard, "Financial Reporting Under the Cash Basis of Accounting—Disclosure Requirements for Recipients of External Assistance"	6/15/05
12/20/04	Proposed ISA 320 (Revised), "Materiality in the Identification and Evaluation of Misstatements"	4/30/05
12/20/04	Proposed ISA 540 (Revised), "Auditing Accounting Estimates and Related Disclosures (Other than Those Involving Fair Value Measurements and Disclosures)"	4/30/05
11/9/04	International Guidelines on Environmental Management Accounting (EMA)	2/28/05
10/5/04	Proposed Revised Code of Ethics for Professional Accountants	11/30/04

Issue Date	Title or Description	Comment Deadline
9/23/04	Policy Statement, "Clarifying Professional Requirements in International Standards" and Consultation Paper, "Improving the Clarity and Structure of IAASB Standards and Related Considerations for Practice Statements"	12/31/04
9/23/04	ISA 230 (Revised), "Audit Documentation" and amendments to ISA 330, "The Auditor's Procedures in Response to Assessed Risks" and ISQC 1, "Quality Control for Firms that Perform Audits and Reviews of Historical Financial and Other Assurance and Related Services Engagements"	1/31/05
7/14/04	Preface to the International Standards on Quality Control, Auditing, Assurance and Related Services—IAASB Due Process and Working Procedures	10/15/04
1/20/04	Revenue from Non-Exchange Transactions (Including Taxes and Transfers)	6/30/04
1/20/04	Accounting for Social Policies of Governments	6/30/04
12/23/03	ISA 600 (Revised), "The Work of Related Auditors and Other Auditors in the Audit of Group Financial Statements" and IAPS, "The Audit of Group Financial Statements"	3/31/04
12/22/03	ISA700 (Revised), "The Independent Auditor's Report on a Complete Set of General Purpose Financial Statements" ISA 200, "Objective and General Principles Governing an Audit of Financial Statements" Amendment to ISA 210, "Terms of Audit Engagements" Conforming Amendments	3/31/04
11/11/03	Revision to Code of Ethics for Professional Accountants	2/15/04
7/18/03	Proposed Revised Code of Ethics for Professional Accountants	11/30/03
6/24/03	Proposed International Standard on Auditing: "Review of Interim Financial Information Performed by the Auditor of the Entity"	9/30/03
FASAB		
7/22/05	**Technical Agenda Options**	**9/9/05**
6/27/05	Accounting for Fiduciary Activities (Revised)	8/30/05

PCAOB

At the present time PCAOB exposure drafts have very short comment periods. A list of outstanding PCAOB exposure drafts is available online at **www.pcaobus.org**.

*New additions appear in **bold** type.*

INFORMATION

The initials stand for the following organizations. Exposure drafts are available online at the Web addresses below or copies may be obtained at the address in parentheses (unless otherwise indicated).

FASB— Financial Accounting Standards Board (Order Department, Financial Accounting Standards Board, 401 Merritt 7, P.O. Box 5116, Norwalk, CT 06856-5116); also available online at **www.fasb.org**

GASB— Governmental Accounting Standards Board (Order Department, Governmental Accounting Standards Board, 401 Merritt 7, P.O. Box 5116, Norwalk, CT 06856-5116); also available online at **www.gasb.org**

AICPA— American Institute of CPAs (American Institute of Certified Public Accountants, Harborside Financial Center, 201 Plaza Three, Jersey City, NJ 07311-3881). AICPA publishes exposure drafts exclusively on the Web site at **www.aicpa.org**. Print copies are not available.

IASB— International Accounting Standards Board (International Accounting Standards Board, 30 Cannon Street, London EC4M 6XH, United Kingdom), also available online at **www.iasb.org.uk**

IFAC— International Federation of Accountants (International Federation of Accountants, 545 Fifth Avenue, 14th Floor, New York, NY 10017); also available online at **www.ifac.org**

SEC— Securities and Exchange Commission (Securities and Exchange Commission, 450 5th Street, N.W., Washington, DC 20549); also available online at **www.sec.gov**

FASAB— Federal Accounting Standards Advisory Board (Federal Accounting Standards Advisory Board, 441 G Street, N.W., Suite 6814, Washington, DC 20548); also available online at **www.fasab.gov**

GAO— U.S. Government Accountability Office (Government Auditing Standards Comments, Marcia B. Buchanan, U.S. General Accounting Office, Room 5089, 441 G Street, N.W., Washington, DC 20548); **www.gao.gov**

PCAOB— Public Company Accounting Oversight Board, 1666 K Street, N.W., Washington, DC 20006-2803; info@pcaobus.org

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Official Releases

GASB No. 47

Space considerations prevent publishing here the appendices to GASB Statement no. 47. Since the appendices often are important to understanding GASB statements, readers are advised to obtain complete copies. For additional copies of GASB statements and/or information on applicable prices and discount rates, contact the GASB order department, 401 Merritt 7, P.O. Box 5116, Norwalk, Connecticut 06856–5116. Telephone: 800–748–0659.

Statement No. 47 of the Governmental Accounting Standards Board—Accounting for Termination Benefits

SUMMARY
This Statement establishes accounting standards for termination benefits.

Recognition Requirements
In financial statements prepared on the accrual basis of accounting, employers should recognize a liability and expense for *voluntary* termination benefits (for example, early-retirement incentives) when the offer is accepted and the amount can be estimated. A liability and expense for *involuntary* termination benefits (for example, severance benefits) should be recognized when a plan of termination has been approved by those with the authority to commit the government to the plan, the plan has been communicated to the employees, and the amount can be estimated. For financial reporting purposes, a plan of *involuntary termination* is defined as a plan that (a) identifies, at a minimum, the number of employees to be terminated, the job classifications or functions that will be affected and their locations, and when the terminations are expected to occur and (b) establishes the terms of the termination benefits in sufficient detail to enable employees to determine the type and amount of benefits they will receive if they are involuntarily terminated. If a plan of involuntary termination requires that employees render future service in order to receive benefits, the employer should recognize a liability and expense for the portion of involuntary termination benefits that will be provided after completion of future service ratably over the employees' future service period, beginning when the plan otherwise meets the recognition criteria discussed above.

In financial statements prepared on the modified accrual basis of accounting, liabilities and expenditures for termination benefits should be recognized to the extent the liabilities are normally expected to be liquidated with expendable available financial resources.

Measurement Requirements
Healthcare-related termination benefits that are provided as the result of a large-scale, age-related program (for example, an early-retirement incentive program that affects a significant portion of employees) should be measured at their discounted present values based on projected total claims costs (or age-adjusted premiums approximating claims costs) for terminated employees, with consideration given to the expected future healthcare cost trend rate. Employers that provide healthcare-related termination benefits that are not part of a large-scale, age-related termination program are permitted, but not required, to measure the cost of termination benefits based on projected claims costs for terminated employees. That is, in this circumstance, the cost of termination benefits may be based on unadjusted premiums.

The cost of non-healthcare-related termination benefits for which the benefit terms establish an obligation to pay specific amounts on fixed or determinable dates should be measured at the discounted present value of expected future benefit payments (including an assumption regarding changes in future cost levels during the periods covered by the employer's commitment to provide the benefits). If, however, the benefit terms do not establish an obligation to pay specific amounts on fixed or determinable dates, the cost of non-healthcare-related benefits should be calculated as *either* (a) the discounted present value of expected future benefit payments or (b) the undiscounted total of estimated future benefit payments at current cost levels.

Termination Benefits That Affect an Employer's Defined Benefit Pension or OPEB Obligations
As an exception to the general recognition and measurement requirements discussed above, the effects of a termination benefit on an employer's obligations for defined benefit pension or other postemployment benefits should be accounted for and reported under the requirements of Statement No. 27, *Accounting for Pensions by State and Local Governmental Employers*, or Statement No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions*, as applicable.

Disclosure Requirements
This Statement requires employers to disclose a description of the termination benefit arrangement, the cost of the termination benefits (required in the period in which the employer becomes obligated if that information is not otherwise identifiable from information displayed on the face of the financial statements), and significant methods and assumptions used to determine termination benefit liabilities.

Effective Date
The requirements of this Statement are effective in two parts. For termination benefits provided through an existing defined benefit OPEB plan, the provisions of this Statement should be implemented simultaneously with the requirements of Statement 45. For all other termination benefits, this Statement is effective for financial statements for periods beginning after June 15, 2005. Earlier application is encouraged.

In the initial year of implementation, the requirements of this Statement should be applied to any previous commitments of termination benefits that remain unpaid at the effective date of the Statement. The cumulative effect of applying this Statement should be reported as a restatement of beginning net assets (or equity or fund balance, as appropriate). Financial statements for prior periods are not required to be restated.

How the Changes in This Statement Will Improve Financial Reporting
This Statement supersedes accounting guidance in National Council on Governmental Accounting (NCGA) Interpretation 8, *Certain Pension Matters*, as amended, which addresses one form of voluntary termination benefits—*special termination benefits*, or those offered for a "short period of time." It improves financial reporting by (a) adopting for *all* voluntary termination benefits recognition requirements similar to those in NCGA Interpretation 8, (b) establishing guidance applicable to involuntary termination benefits that requires governments, in financial statements prepared on the accrual basis of accounting, to account for the effects of termination benefits in the period in which the employer becomes obligated to provide benefits to terminated employees, and (c) elaborating on measurement issues associated with all forms of termination benefits. As a result of govern-

(continued on page 132)

Unless otherwise specified, pronouncements of the GASB apply to financial reports of all state and local governmental entities, including general purpose governments, public benefit corporations and authorities, public employee retirement systems, utilities, hospitals and other healthcare providers, and colleges and universities. Paragraph 6 discusses the applicability of this Statement.




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AICPA National Conferences on Fraud and Litigation Services

September 29–30, 2005

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Dallas, TX

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- Keynote speaker Neil Batson, US Bankruptcy Court appointed examiner for Enron
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- Expert speakers, including Larry Crumbly
- Additional legal viewpoints
- Intensive Daubert session series

AICPA National Governmental & Not-For-Profit Training Program

October 17–19, 2005

Sheraton New Orleans
New Orleans, LA

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Sunday, October 16

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- Five tracks including a new track focusing on Single Audit
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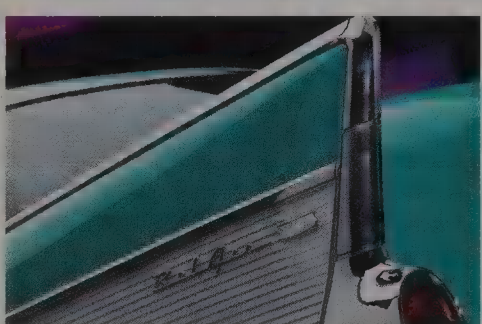
- Independence revisions
- Recently issued and recently effective GASB standards
- IRS and congressional initiatives for NPO reforms
- Latest HUD requirements

AICPA National Auto Dealership Conference



October 24–25, 2005

Baltimore Marriott Waterfront
Baltimore, MD

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Conference Highlights:

- High-power keynote speakers: James Ziegler, Ziegler SuperSystems; Irv Miller, Vice President of Toyota and Steve Finlay, *Ward's Dealer Business*
- Cruise through today's economic uncertainty
- Survival toolkit for the retail automobile professional

AICPA National Conference on Credit Unions

October 26–28, 2005

Caesars Palace
Las Vegas, NV

CPE Credits: 19 (main) and 3 (optional)
Pre-Conference Workshops:
Wednesday, October 26

Conference Highlights:

- NCUA Chairman's and Regulatory Updates
- Political & legislative developments in the industry
- Latest Auditing and Accounting Standards
- Updates on ALM, emerging CUSO issues, compensation, loan review and IT
- FASB Project on Credit Union Mergers
- Expanded Audit Track to include issues of importance to Internal Auditors

ments' being required to account for similar termination benefits in the same manner, application of this Statement will enhance the comparability of financial statements.

CONTENTS

INTRODUCTION

1. Some governments provide benefits intended to hasten an employee's voluntary termination of services, sometimes referred to as *early-retirement incentives*, which may be offered for a short period of time or, in some cases, may be part of a longer-standing offer. Examples of benefits commonly provided as incentives for voluntary terminations include cash payments (one-time or a series), enhancements to defined benefit pension or other postemployment benefit (OPEB) formulas, and healthcare coverage when none otherwise would be provided. In addition, governments sometimes provide benefits to terminated employees as a result of involuntary terminations, such as layoffs. Examples of benefits provided for involuntary terminations include severance pay, continued access to health insurance through the employer's group insurance plan, career counseling, and outplacement services. Other benefits, such as healthcare continuation under the Consolidated Omnibus Budget Reconciliation Act (COBRA), are provided as a result of voluntary and involuntary terminations, in certain circumstances.

2. Prior to this Statement, guidance on governmental employer accounting and reporting for termination benefits was limited to one form of voluntary termination benefits—*special termination benefits*, which were defined as those offered "for a short period of time." The objective of this Statement is to provide guidance to governmental employers for measuring, recognizing, and reporting liabilities and expense/expenditures related to *all* termination benefits, including voluntary termination benefits, without limitation as to the period of time during which the benefits are offered, and involuntary termination benefits.

STANDARDS OF GOVERNMENTAL ACCOUNTING AND FINANCIAL REPORTING

Scope and Applicability of This Statement

3. This Statement establishes standards of accounting and financial reporting for termination benefits. As used in this Statement, termination benefits are benefits provided by employers to employees as an inducement to hasten the termination of services or as a result of a voluntary early termination (*voluntary termination benefits*) or as a consequence of the involuntary early termination of services (*involuntary termination benefits*). Termination benefits include early-retirement incentives, severance benefits, and other termination-related benefits. The scope of this Statement does not include unemployment compensation, for which accounting requirements are established in National Council on Governmental Accounting (NCGA) Statement 4, *Accounting and Financial Reporting Principles for Claims and Judgments and Compensated Absences*.

4. Termination benefits, as discussed in paragraph 3, are different in nature from the salaries and benefits, including postemployment benefits, that an employer provides as compensation for employee services. Accordingly, postemployment benefits (pensions and OPEB), which are part of the compensation that employers offer in exchange for services received, are excluded from the scope of this Statement. Accounting requirements for pensions and OPEB are addressed in Statements No. 27, *Accounting for Pensions by State and Local Governmental Employers*, and No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions*, respectively.

5. In determining whether the nature of a benefit arrangement is to provide benefits in exchange for the early termination of services (a termination benefit) or to provide benefits in exchange for employee services (a pension benefit or OPEB), professional judgment should be applied considering all relevant factors—including, for example, the employer's intent, the way in which the employees generally view the benefits, whether the benefit is conditioned on termination of employment prior to the normal retirement age, and the length of time for which the benefits have been made available.

6. The requirements of this Statement apply to the financial statements of all state and local governmental employers that provide termination benefits.

7. This Statement supersedes paragraphs 6, 7, 8b, 12, 17, and 18 of NCGA Interpretation 8, *Certain Pension Matters*, and amends paragraph 5 of NCGA Interpretation 6, *Notes to the Financial Statements Disclosure*; paragraph 8 of GASB Statement No. 1, *Authoritative Status of NCGA Pronouncements and AICPA Industry Audit Guide*; paragraph 2 of GASB Statement No. 10, *Accounting and Financial Reporting for Risk Financing and Related Insurance Issues*; paragraph 2 and footnote 2 of GASB Statement No. 12, *Disclosure of Information on Postemployment Benefits Other Than Pension Benefits by State and Local Governmental Employers*; paragraphs 12 and 44 of GASB Statement No. 25, *Financial Reporting for Defined Benefit Pension Plans and Note Disclosures for Defined Contribution Plans*; paragraphs 5 and 11 of GASB Statement No. 26, *Financial Reporting for Postemployment Healthcare Plans Administered by Defined Benefit Pension Plans*; footnotes 2 and 3 and paragraphs 5, 6, and 39 of GASB Statement 27; paragraph 81 of GASB Statement No. 34, *Basic Financial Statements—and Management's Discussion and Analysis—for State and Local Governments*; paragraphs 9 and 46 of GASB Statement No. 43, *Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans*; paragraphs 8 and 40 of GASB Statement 45; and paragraphs 5, 6, 9, 11, and 14 and footnote 7 of GASB Interpretation No. 6, *Recognition and Measurement of Certain Liabilities and Expenditures in Governmental Fund Financial Statements*.

Measurement and Recognition of Termination Benefits

8. An employer should account for termination benefits in accordance with the measurement and recognition requirements of paragraphs 9 through 16 of this Statement, as applicable, and should include as part of the cost of termination benefits any fringe benefits related to the termination benefits and any directly resulting changes in the estimated costs of other employee benefits such as compensated absences, if reliably measurable. However, the effects of a termination benefit on an employer's defined benefit pension or OPEB obligations should be accounted for in accordance with paragraph 17 of this Statement.

Measurement

Healthcare-Related Termination Benefits

9. An employer should measure the cost of healthcare-related termination benefits, including healthcare continuation under COBRA, by calculating the discounted present value of expected future benefit payments, in accordance with the following requirements, as applicable:

a. Projection of Benefits.

(1) If the event giving rise to healthcare-related termination benefits is a large-scale, age-related program (for example, a voluntary program of incentives for senior employees that results in early termination of employment by a significant portion of employees), the employer should segregate the benefits provided to terminated employees and their beneficiaries from those provided to active employees for measurement purposes and should project the employer's expected future benefit payments based on the projected total claims costs, or age-adjusted premiums approximating claims costs, for terminated employees.[1] (The employer's expected termination benefit payment for each future period for which healthcare-related termination benefits are to be provided is the difference between (a) the projected claims costs, or age-adjusted premiums approximating claims costs, for terminated employees and (b) the payment(s), if any, to be made by the terminated employees.)

(2) If the event giving rise to healthcare-related termination benefits is not a large-scale, age-related program (for example, the termination benefits arise as the result of a reduction in force that affects employees with an age profile similar to that of the entire workforce), the em-

[1] However, if the healthcare-related termination benefit affects the employer's obligation to provide defined benefit postemployment healthcare benefits (OPEB), the effects of the termination benefits on the employer's OPEB obligations should be accounted for as required by paragraph 17, instead of paragraphs 9 through 16, which otherwise would apply.

ployer should segregate the benefits provided to terminated employees and their beneficiaries from those provided to active employees for measurement purposes and should project the employer's expected future benefit payments for terminated employees.[2] For this purpose, the use of projected claims costs, or age-adjusted premiums approximating claims costs, is not required. In this circumstance, unadjusted premiums may be used as the basis for the projection of expected future benefit payments. (If unadjusted premiums are used, the employer's expected termination benefit payment for each future period for which healthcare-related termination benefits are to be provided is the difference between (a) the projected termination benefit cost, based on unadjusted premiums, for terminated employees and (b) the payment(s), if any, to be made by the terminated employees.)

b. Healthcare Cost Trend Rate. The projection of expected future benefit payments should include an assumption regarding the healthcare cost trend rate[3] for the periods covered by the employer's commitment to provide the benefits.

c. Discount Rate. The discount rate should be determined by giving consideration to the estimated yield, over the period of time the benefits are to be provided, on the investments that are expected to be used to finance the payment of benefits,[4] with consideration given to the nature and mix of current and expected investments.

Non-Healthcare-Related Termination Benefits

10. An employer should measure the cost of termination benefits that are not healthcare related as follows:

a. If the benefit terms establish an obligation to pay specific amounts on fixed or determinable dates, the cost of non-healthcare-related termination benefits should be calculated as the discounted present value of expected future benefit payments, including an assumption regarding changes in future cost levels during the periods covered by the employer's commitment to provide the benefits.

b. If the benefit terms do not establish an obligation to pay specific amounts on fixed or determinable dates, the cost of non-healthcare-related benefits should be calculated as either (1) the discounted present value of expected future benefit payments, including an assumption regarding changes in future cost levels during the periods covered by the employer's commitment to provide the benefits, or (2) the undiscounted total of estimated future benefit payments at current cost levels.

11. If expected future payments for termination benefits are discounted, the discount rate should be determined by giving consideration to the estimated yield, over the period of time the benefits are to be provided, on the investments that are expected to be used to finance the payment of benefits,[5] with consideration given to the nature and mix of current and expected investments.

[2] See footnote 1.

[3] The healthcare cost trend rate is the rate of change in per capita health claims costs over time as a result of factors such as medical inflation, utilization of healthcare services, plan design, and technological developments.

[4] The estimated yield on investments of the employer that are committed to other uses (for example, investments of interest and sinking funds for repayment of bonded debt) should not be included for this purpose.

[5] See footnote 4.

Recognition of Termination Benefit Liabilities and Expense in Accrual Basis Financial Statements

12. An employer should recognize a liability and expense for *voluntary* termination benefits, in financial statements prepared on the accrual basis of accounting, when the employees accept the offer and the amounts can be estimated. Measurement of the liability should be updated, and any incremental liability and expense (positive or negative) should be recognized, as of the end of each subsequent reporting period.

13. An employer should recognize a liability and expense for *involuntary* termination benefits, in financial statements prepared on the accrual basis of accounting, when a plan of termination has been approved by those with the authority to commit the employer to the plan, the plan has been communicated to the employees, and the amounts can be estimated. Measurement of the liability should be updated, and any incremental liability and expense (positive or negative) should be recognized, as of the end of each subsequent reporting period.

14. For purposes of this Statement, a plan of involuntary termination is a plan that:

a. Identifies, at a minimum, the number of employees to be terminated, the job classifications or functions that will be affected and their locations, and when the terminations are expected to occur

b. Establishes the terms of the termination benefits in sufficient detail to enable employees to determine the type and amount of benefits they will receive if they are involuntarily terminated.

15. Notwithstanding the requirements of paragraph 13, if a plan of involuntary termination requires the employee to render future service in order to receive termination benefits, a liability and expense for the portion of involuntary termination benefits that will be provided only after completion of future service should be recognized ratably over the future service period.[6] Measurement of the liability should be updated as of the end of each subsequent reporting period, and any incremental liability and expense (positive or negative) should be recognized ratably over the remaining future service period.

Recognition of Termination Benefit Liabilities and Expenditures in Modified Accrual Basis Financial Statements

16. In governmental fund financial statements, which are prepared on the modified accrual basis of accounting, liabilities and expenditures for termination benefits should be recognized to the extent the liabilities are normally expected to be liquidated with expendable available financial resources, as interpreted in paragraph 14 of Interpretation 6, as amended.

Effects of a Termination Benefit on an Employer's Defined Benefit Pension or Other Postemployment Benefit Obligations

17. The effects of a termination benefit on an employer's defined benefit pension or OPEB obligations (for example, a change in an employer's actuarial accrued liability for pension benefits or postemployment healthcare benefits) should be accounted for and reported in accordance with the requirements of Statement 27 or Statement 45, respectively.

[6] For this purpose, the future service period is considered to begin when a plan of termination has been approved by those with the authority to commit the employer to the plan, the plan has been communicated to the employees, and the amounts can be estimated.

Note Disclosures

18. In the period in which an employer becomes obligated for termination benefits and in any additional period in which employees are required to render future service in order to receive involuntary termination benefits, the employer should disclose in the notes to the financial statements a description of the termination benefit arrangement(s)—for example, information about the type(s) of benefits provided, the number of employees affected, and the period of time over which benefits are expected to be provided.

19. In addition, in the period in which an employer becomes obligated for termination benefits, the cost of termination benefits should be disclosed in the notes to the financial statements if that information is not otherwise identifiable from information displayed on the face of the financial statements. To meet this requirement, an employer that provides termination benefits that affect defined benefit pension or OPEB obligations should disclose in the notes to the financial statements the change in the actuarial accrued liability for the pension or OPEB plan attributable to the termination benefits.

20. In all periods in which termination benefit liabilities are reported, the employer should disclose the significant methods (for example, whether termination benefits are measured at the discounted present value of expected future benefit payments) and assumptions (for example, the discount rate and healthcare cost trend rate, if applicable) used to determine the liabilities.

21. If a termination benefit that otherwise meets the recognition criteria of this standard is not recognized because the expected benefits are not estimable, the employer should disclose that fact.

EFFECTIVE DATE AND TRANSITION

22. For termination benefits that affect an employer's obligations for defined benefit OPEB, the provisions of this Statement should be applied simultaneously with the requirements of Statement 45. For all other termination benefits, including those that affect an employer's obligations for defined benefit pension benefits, this Statement is effective for financial statements for periods beginning after June 15, 2005. Earlier application of this Statement is encouraged.

23. In the initial year of implementation, the requirements of this Statement should be applied to any previous commitments of termination benefits that remain unpaid at the effective date of the Statement. The cumulative effect of applying this Statement should be reported as a restatement of beginning net assets (or equity or fund balance, as appropriate). Financial statements for prior periods are not required to be restated.

The provisions of this Statement need not be applied to immaterial items.

This Statement was issued by unanimous vote of the seven members of the Governmental Accounting Standards Board:

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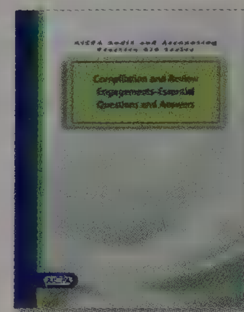

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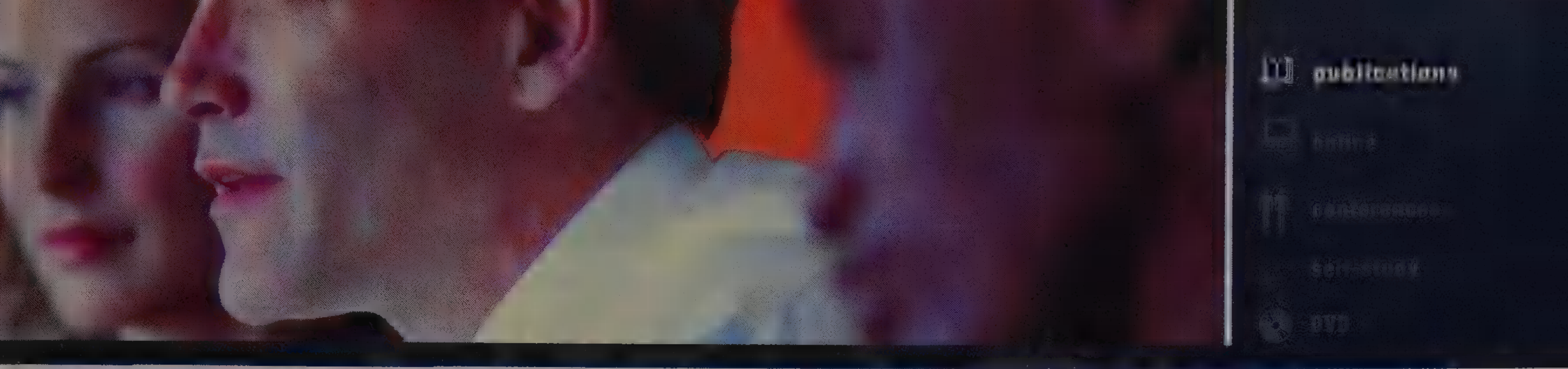

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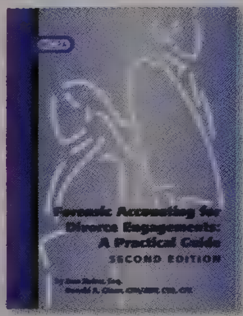
Forensic Accounting for Divorce Engagements: A Practical Guide

By Donald A. Glenn, CPA/ABV, CVA, CFE, Ezra Huber, Esq.

Second Edition



Taking up where *A CPA's Guide to Family Law Services* (Business Valuation/Litigation Services Practice Aid 05-1) leaves off, *Forensic Accounting for Divorce Engagements: A Practical Guide* features example-type situations and it also discusses the applicability of these situations. Designed as a full-spectrum, how-to reference for divorce engagements, the second edition of this Guide takes the forensic CPA through the investigation process and delves into:

- *Role of Forensic Investigator* — Accepting the assignment; roles of the client, attorney, and CPA.
- *Divorce and Property Division* — Divorce process; available legal tools; prenuptial agreements.
- *Business Assets* — Which documents are important and how they are used in conjunction with financial records; dealing with cash businesses.
- *Common Problematic Transactions* — Personal expenses paid by business; inventory shrinkage; delay in invoicing customers; large unusual purchases and events.
- *Fraud and Misstatements* — Decline in profit due to Cost Price or Volume changes, personal expenses hidden from disclosure, false vendors or employees and other fraud schemes.
- *Marketing Forensic Services* — Practical suggestions to market forensic services.
- *Appendix (Templates)* — Documents requests, deposition questions and data organizing templates.

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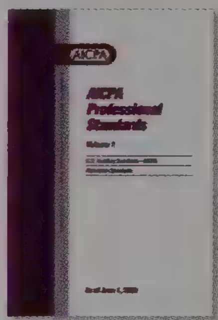

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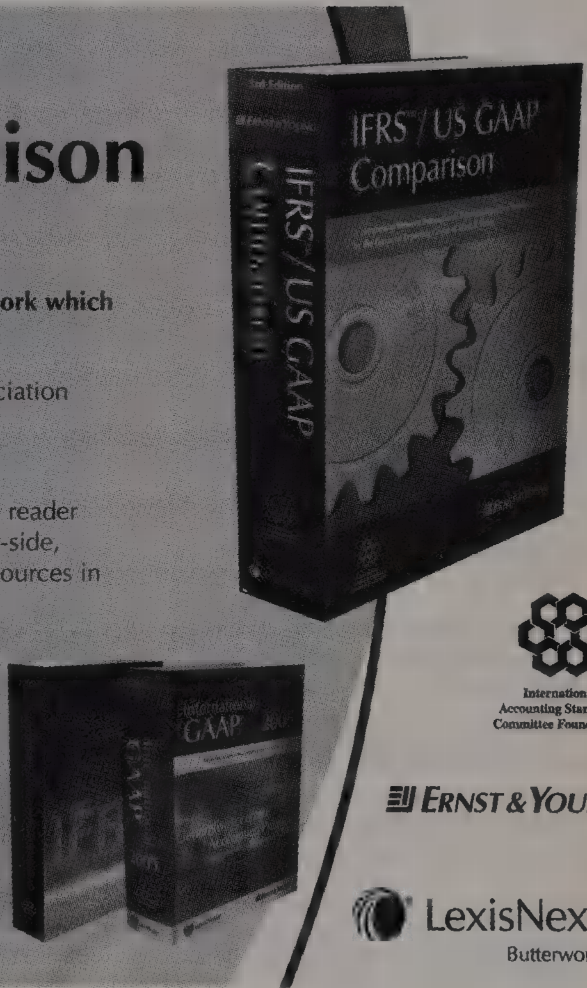

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The Last Word

I've wanted to be an FBI agent since I was six years old. My best friend's father was an agent. When I was in high school I called the FBI and asked how to get in and they told me to get an accounting degree. Even today our goal is to have 15% of new hires with accounting backgrounds. I worked for the FBI as a clerk and financial analyst while in college and left for a career in public accounting. One day I received a phone call recruiting me as a special agent. I was very, very fortunate. The FBI receives more than 50 applications for every position; we have 60,000 applicants in the pool at any given time.

I'd passed most of the CPA exam before I became an agent. There's something about the accounting profession—its value system, the integrity aspects of it—that appealed to me and still does. I'm very proud of the profession and honored to serve my country. Where else could a CPA be part of a team of over 30,000 extraordinary men and women committed to defending America from terrorists, spies and criminals?

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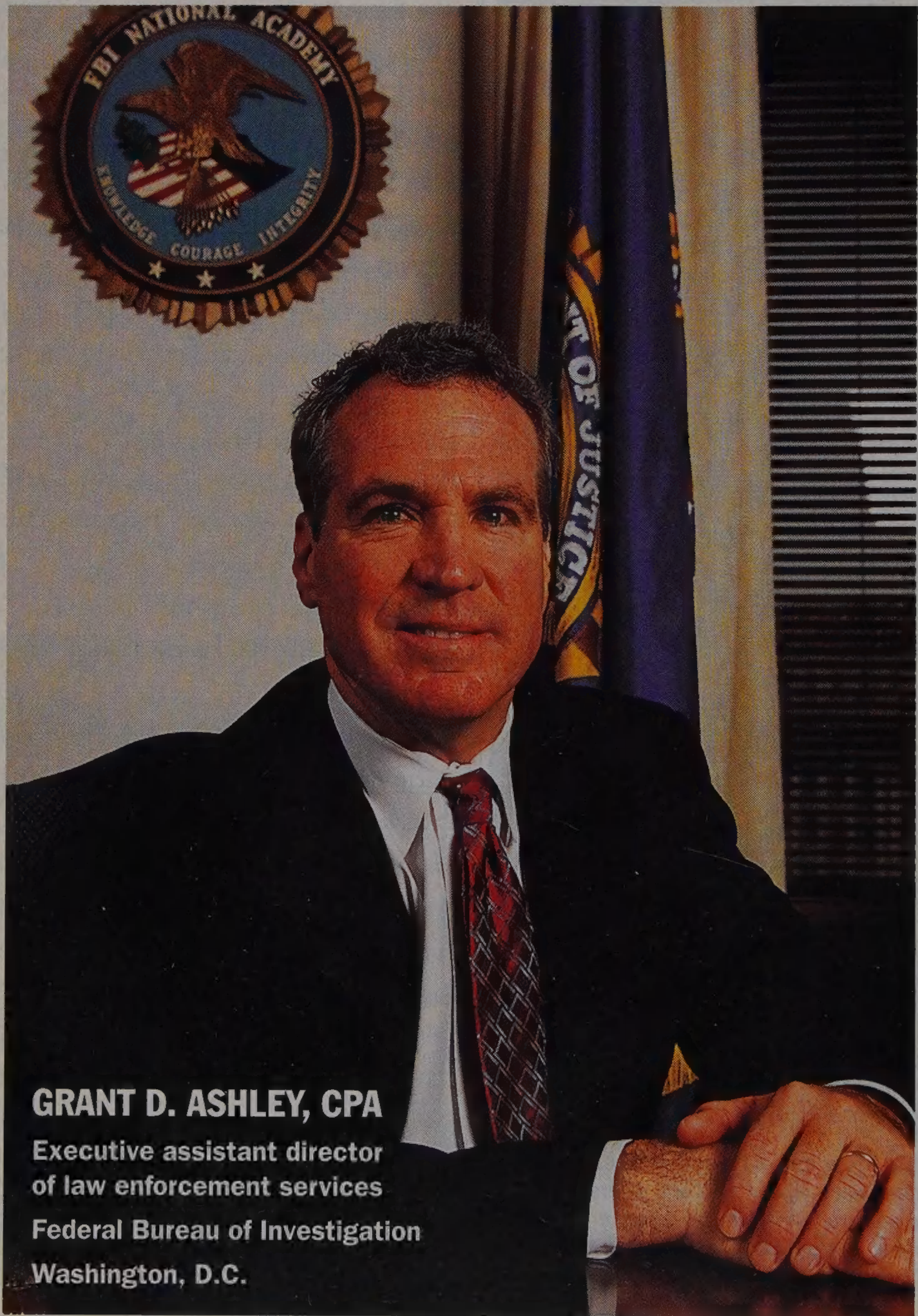

GRANT D. ASHLEY, CPA
Executive assistant director of law enforcement services
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Washington, D.C.

In my earlier days, I served on an FBI SWAT team in Los Angeles with another special agent CPA. We rappelled out of helicopters and faced armed and dangerous criminals together. Today he's a partner at KPMG.

I've been with the FBI for 28 years. Every day is very exciting and rewarding, but we have mandatory retirement so one day I'm going to have to grow up. Our retirees are in very high demand—the combination of an accounting degree plus investigative experience and top-secret clearance is very powerful. Some agents go into senior management, risk management or security in corporate America, or back into public accounting.

My wife has been an airline employee for 27 years. I actually met her on an airplane. I was flying home from Quantico and got stuck between her and her brother. It was the best middle seat I've ever had.

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—As told to Cheryl Rosen

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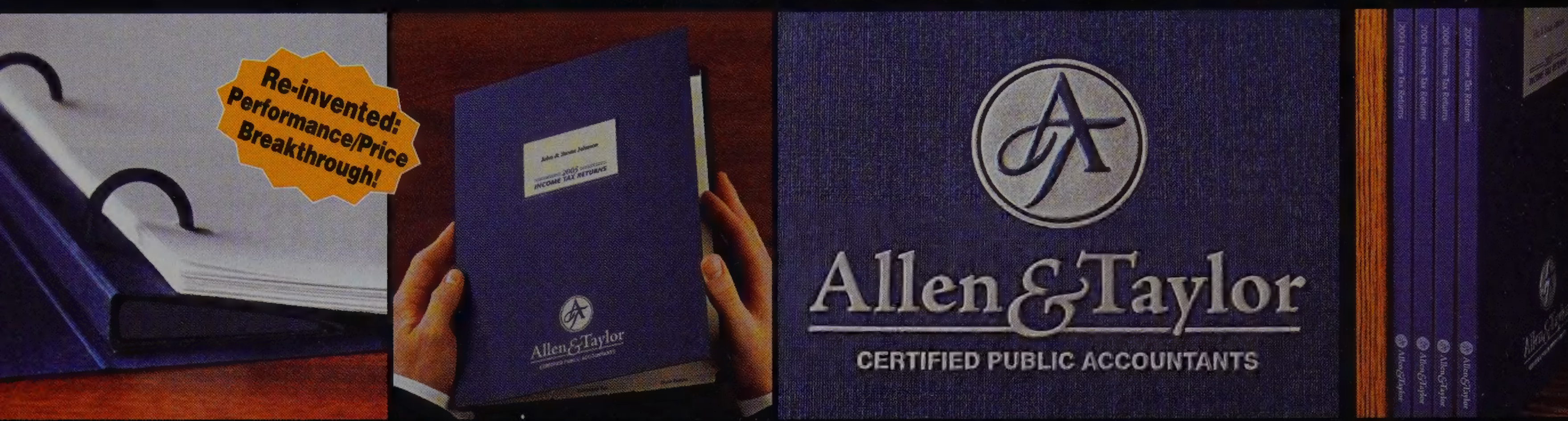

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